

ANNUAL REPORT

FY 2016-2017



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ANNUAL REPORT FOR FISCAL YEAR 2017

(July 1, 2016 – June 30, 2017)

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

*Joint Audit Program Member
†National Nexus Program Member

Message from the Executive Director

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



I am pleased to present the 2017 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, 2016, to June 30, 2017. This annual report presents a convenient compilation of reports presented to the Commission at its 50th annual meeting and conference held in Louisville, Kentucky, in August, as well as the *Financial Statements and Report of Independent Certified Public Accountants for the Years Ended June 30, 2017 and 2016*.

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. This past year the Commission celebrated its 50th anniversary and, as a part of that celebration, highlighted the role and impact the Commission has had on state taxation, notable events involving the Commission, and people who have been a part of the Commission's activities. One such effort was the feature "This Week in MTC History" included in the Federation of Tax Administrator's publication TaxExPRESS and on the MTC website. The celebration culminated with the events held during the 50th annual meeting and conference, which highlighted Commission accomplishments from the past, made note of present work of the Commission, and speculated on the future impact that the Commission may have.

At our 49th annual meeting held July 2016 in Kansas City, Missouri, we recognized our distinguished and outstanding award winners. Joe Huddleston, currently with EY, was the recipient of the Wade Anderson Memorial Medal for Leadership in Interstate Tax Cooperation. Wood Miller of the Missouri Department of Revenue and Phil Horwitz of the Colorado Department of Revenue were jointly awarded the 2016 Paull Mines Award for Contributions to State Tax Jurisprudence.

During the period covered by this report, work was completed on two uniformity projects – the model statute for sales and use tax nexus and amendments to the Commission's general allocation and apportionment regulation. The Commission's uniformity efforts, in addition to the work of the audit and nexus programs, training, litigation support for states, and monitoring federal developments that have state tax impacts, reflect the commitment we have to achieve our vision.

I ask for your continued input and support as the Commission enters its sixth decade of facilitating joint state efforts in these areas. The Annual Report of the Multistate Tax Commission — by nature, a backward look at the Commission's activities — will provide you with information that will be helpful to you in providing us that input and support. I look forward to hearing from you.

Respectfully,

Gregory S. Matson
Executive Director



Overview of Actions Taken by the Multistate Tax Commission

The Commission held the Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 27, 2016, in Kansas City, Missouri.

The Commission took the following actions during July 1, 2016, to June 30, 2017:

- Approved the Commission Budget for 2016-2017.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted a *Model Statute for Sales and Use Tax Nexus (Engaging in Business)* as a uniformity recommendation to the states.
- Adopted amendments to the Commission's Model General Allocation and Apportionment Regulation.
- Elected Demesia Padilla, Secretary of Taxation and Revenue, New Mexico, as Chair.
- Elected Rich Jackson, Commissioner, Idaho State Tax Commission, as Vice Chair.
- Elected Ryan Rauschenberger, Tax Commissioner, North Dakota, as Treasurer.
- Elected Glenn Hegar, Texas Comptroller of Public Accounts; Mike Kadas, Director, Montana Department of Revenue; John L. Valentine, Chair, Utah State Tax Commission; and Nia Ray, Director of Revenue, Missouri Department of Revenue, as at-large members of the Executive Committee.

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



Crowne Plaza Hotel, Kansas City, Missouri



Report of the Executive Committee

The Executive Committee met four times during the period July 1, 2016, to June 30, 2017:

- July 28, 2016, in Kansas City, Missouri;
- October 4, 2016, via teleconference;
- December 15, 2016, in Houston, Texas; and
- May 11, 2017, 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 2017:

- Chair: Demesia Padilla, Secretary of Taxation and Revenue, New Mexico
- Vice Chair: Rich Jackson, Commissioner, Idaho State Tax Commission
- Treasurer: Ryan Rauschenberger, Tax Commissioner, North Dakota
- At-Large: Glenn Hegar, Texas Comptroller of Public Accounts, Mike Kadas, Director, Montana Department of Revenue; and John L. Valentine, Chair, Utah State Tax Commission; and Nia Ray, Director of Revenue, Missouri Department of Revenue

In August, Nia Ray left her position with the Missouri Department of Revenue to become Director of the Oregon Department of Revenue, creating a vacancy in one of the four at-large positions on the Executive Committee. Upon her confirmation in Oregon, the Chair appointed her to fill the open position and was elected by the committee in December.

In December, Demesia Padilla left her position with New Mexico and Vice Chair Rich Jackson succeeded her. This resulted in a vacancy in the office of vice chair. The Chair appointed John Valentine to serve out the remainder the term. This resulted in a vacancy in one of the four at-large positions on the Executive Committee. The Chair appointed Walter Anger, Deputy Director and Commissioner of Revenue, Arkansas Department of Finance and Administration, to serve out the remainder of Mr. Valentine's term. These appointees were duly elected by the Executive Committee in accordance with the bylaws on May 11, 2017.



The Executive Committee took the following actions during fiscal year 2017:

- Received the Uniformity Committee’s recommendations with respect to those issues referred to that committee on proposed amendments to the Commission’s General Allocation and Apportionment Regulations. The Executive Committee considered the Uniformity Committee’s recommendations and with amendments recommended consideration by the Commission, triggering the bylaw 7 survey process for these provisions.
- Ratified the name change of the Arm’s-Length Adjustment Service Committee to the State Intercompany Transactions Advisory Service Committee.
- Approved a plan to close and distribute funds held in a restricted fund account for the Property Tax (4R Act) Project.
- Endorsed adjustments to the Commission’s committee meeting schedule.
- Referred the Model Sales and Use Tax Notice and Reporting proposal back to the Uniformity Committee.
- Approved recommended amendments to the commission’s bylaws and directed that requisite notice be provided so that those amendments would be considered at the Commission’s annual business meeting scheduled for August 2, 2017.
- Reviewed the efforts and completed work of the Strategic Planning Steering Committee for fiscal year 2016.
- Approved the audited financial statements as reported in an independent auditor report for the years ended June 30, 2016 and 2015.
- Approved a proposed fiscal year 2017 – 2018 budget for the Commission.

The Executive Committee undertook additional actions during fiscal year 2017 that are recorded in the minutes of its meetings.



Report of the Audit Committee

Frank Hales, Chair

Lee Baerlocher, Vice Chair

Audit Committee

The audit committee has met three times in fiscal year 2017. The first meeting was in Kansas City, Missouri, on July 25, 2016. There were 46 members, guests, and staff present during the public session and 47 members and staff present during the closed session of the meeting. There was one member of the public present at the public session, and there were 40 individuals representing 22 audit program states present during the closed session of the meeting.

The second meeting was held in Houston, Texas, on December 13, 2016. There were 48 members, guests, and staff present during the public session and 47 members and staff present during the closed session of the meeting. There were no members of the public present at the public session and there were 39 individuals representing 22 audit program states present during the closed session of the meeting.

The third meeting was held in San Diego, California, on March 9, 2017. There were 38 members, guests, and staff present during the public session and 34 members and staff present during the closed session of the meeting. There were two members of the public present at the public session and there were 27 individuals representing 21 audit program states present during the closed session of the meeting.

During the meeting in Kansas City the audit committee reviewed a proposed audit evaluation survey for the audit program and moved forward with that project. The audit committee reviewed the status of all the audits in progress. A discussion was held on 16 income tax and 6 sales tax audits that had significant issues. This discussion included a recommendation from one of the MTC auditors to close one of the audits based on the program's early closure guidelines. The committee took action to approve this recommendation. As customary, the audit committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

During the meeting in Houston the audit committee approved the final draft of an audit satisfaction survey, which the audit program began using on completed audits at the start of the calendar year. The audit committee discussed the continued problem with statute deadlines and decided to have the audit program audit the two most currently filed tax years with the third year being the returned filed during the audit



process. The committee reviewed the income tax nominations and voted to add ten nominated companies into the audit inventory. The committee reviewed the status of all the audits in progress.

During the meeting in San Diego the audit committee discussed closing one of the audit program audits. After the discussion the committee recommended closing the audit pursuant to the early audit closure provisions. The audit committee also discussed the sales tax audit program results. Overall, there was a common understanding that the results of the sales tax audits would not compare to the income tax audit results and the committee was satisfied with the sales tax audit results. As usual, the committee reviewed active cases and held the states' round table discussion.

The next meeting of the audit committee will be held during the MTC annual meeting in Louisville, Kentucky, July 31st through August 3rd.

Audit Program

Productivity

The Audit Program has completed four income tax audits and parts of eight other income tax audits for the fiscal year 2017. The Audit Program also has completed eight sales tax audits and parts of six other sales tax audits for this same period. Currently, there are twenty-one (21) income and thirty-three (33) sales tax audits in progress.

The MTC Audit Program has proposed assessments of \$167,460,884 for the completed income tax audits and \$3,753,760 for the completed sales tax audits for the fiscal year ending June 30, 2017.

Staffing

In October we added a new income tax auditor, Ali Pazand. Ali came to us highly recommended from the New Mexico Taxation and Revenue Department. In January we hired another income tax auditor, Virginia (Kay) Mick. Kay came to us highly recommended from the West Virginia Department of Revenue. Both Ali and Kay report to Jeff Silver in New York.





TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/00- 6/17

	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15	6/16	6/17
Income Tax Total Audits	10	8	7	8	7	7	9	7	7	3	6	6	4	5	6	5	4	4
Total States Audited	251	131	166	165	266	196	175	141	209	79	152	309	131	150	103	79	64	76
Total Hours	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893	7925
Average Hours Per State	52	66	57	64	45	64	72	66	84	81	69	83	91	86	139	141	201	104
Sales Tax Total Audits	11	14	13	11	10	11	6	15	9	10	12	5	5	12	6	4	11	8
Total States Audited	102	158	159	145	154	160	77	187	97	120	147	65	59	163	63	48	108	76
Total Hours	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155	12267
Average Hours Per State	89	75	56	61	71	38	64	71	80	61	73	110	85	81	104	106	168	161
Total Both Taxes Total Audits	21	22	20	19	17	18	15	22	16	13	18	11	9	17	12	9	15	12
Total States Audited	353	289	325	310	420	336	252	328	306	199	299	374	190	313	166	127	172	152
Total Hours	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048	20192
Average Hours Per State	63	71	56	62	55	56	70	69	83	69	71	88	89	83	126	128	180	133

Kathy Owens, one of our sales tax auditors, retired from the Commission in December.

Audit Committee

The audit committee met three times during the fiscal year 2017. The first meeting was held during MTC annual meeting event on July 25, 2016, in Kansas City, Missouri. The second meeting, fall meeting, took place in Houston, Texas, on December 13, 2016. The third meeting, winter meeting, took place in San Diego, California, on March 9, 2017.

Training

The MTC held a Statistical Sampling for Sales and Use Tax Audits, September 19 -22, 2016, in Wheat Ridge, Colorado. Bob Schauer was the instructor for this class. We also held a Computer Assisted Audit Techniques Using Excel class October 18-19, 2016, in Hoover, Alabama. Harold Jennings and L.D. Ridenour were the instructors for that class. Another Statistical Sampling for Sales and Use Tax Audits was held in Sioux Falls, South Dakota, May 16-19, 2017. The instructor for that class was Bob Schauer, with assistance from Sam Moon.



Report of the Litigation Committee

Clark Snelson, Chair

Mark Wainwright and Dee Wald, co-Vice Chairs

The Litigation Committee is composed of approximately 165 state assistant attorneys general, assistant solicitors, and state agency tax counsel. It is responsible for overseeing, coordinating, and sponsoring Commission activities to foster development of and cooperation between state tax attorneys on matters relevant to state tax jurisprudence and administration within the Commission's authority. The Committee also supports the Commission by providing advice on legal and tax matters when requested.

Regarding its activities during the past fiscal year, the Committee met in Kansas City, Missouri, during the 2016 annual meeting. At that time, Commission staff presented a rough draft charter to formalize the Committee's intent and activities. Marshall Stranburg, Deputy Executive Director, presented a related talk titled *Strategies for the Litigation Committee: What Role Do We Want the Committee to Have Now and in the Future?* The Committee also heard from Richard Prisinzano, U.S. Department of Treasury, regarding the difficulty of tracking money in partnerships and the ease with which transactions can be obscured using that structure.

The Litigation Committee met for the second time during the Commission's March 2017 program committee meetings in San Diego, California, and chiefly addressed internal matters. The group reviewed the litigation committee charter and adopted it unanimously. It also voted to create a networking group of attorneys focused on amicus briefs, and requested volunteers for that group. A number of people expressed interest in participating. In response to general request, Dee Wald subsequently agreed to be the co-vice chair of the Committee. In addition, the group heard a presentation from Shirley Sicilian and Sarah Mcgahan of KPMG regarding the potential effect federal tax reform could have on the states and state litigation.



Report of the Nexus Committee

Lennie Collins, Chair

Christi Vandevender, Vice Chair

The FY 2017 (July 1, 2016, through March 31, 2017) results for Multistate Voluntary Disclosure Program collections provided to National Nexus Program (NNP) member states are strong—but did not exceed the FY 2016 results. The average value of disclosure contracts for FY 2017 has decreased slightly from FY 2016.

- Nexus states' collections: \$19,664,097 (\$22,317,942 in all FY 2016)
- Nexus states' executed contracts: 431 (488 in all FY 2016)
- Nexus states' average contract value: \$45,624 (FY 2016: \$46,747)

In addition, \$25,374 was collected for a non-member state, although voluntary disclosure applications for non-member states are no longer accepted. The above amounts include funds received by the Commission or paid by the taxpayer directly to the states and reported to the Commission. Interest on back tax paid and the value of a new taxpayer are not included.

The Nexus Committee met in person on July 25, 2016, in Kansas City, Missouri, December 13, 2016, in Houston, Texas, March 9, 2017, in San Diego, California, and July 31, 2017, in Louisville, Kentucky. The Nexus Committee conducted meetings by telephone on February 21, April 18, May 16, June 20, and July 18, 2017.

The Committee considered the following issues at the July 25, 2016 meeting:

The Nexus Committee work group completed review of the MTC Multistate Voluntary Disclosure materials published on the website for clarity and ease of use, and presented the work group's report. The work group consisted of Karolyn Bishop, Washington, Chair, Michael Christensen, Utah, Rebecca Johnston, Washington, and Deborah Lee, Alabama. The report included several recommendations to improve the Nexus Program website information, many of those having already been implemented. The work group also recommended that a list of the states' lookback periods be published on the Nexus Program website, in order to provide helpful information to potential voluntary disclosure applicants. Chair Lennie Collins directed the work group to draft suitable



disclaimer language to include with the list of state lookback periods, to be brought back to the Committee for its consideration.

The Committee approved proposed amendments to the Standard Voluntary Disclosure Agreement form. The proposed amendments shortened and clarified provisions, without making substantive changes.

The Committee approved proposed amendments to Paragraphs 1.2 and 15.2 of the Procedures of Multistate Voluntary Disclosure.

The Committee requested that staff research how states are treating the question of “who is the taxpayer” in the context of a unitary group, in order to consider whether that issue should be further addressed in a “frequently asked question” or in a provision added to the Standard Voluntary Disclosure Agreement form.

The Committee requested that staff conduct a survey of Nexus Program participating states as to how they treat net operating losses in voluntary disclosure agreements.

Nexus Committee Work Group November 3, 2016 Meeting and Report

The work group met by teleconference on November 3, 2016, to draft disclaimer language to add to the list of published lookback periods for NNP states. This was to clarify that a state’s lookback period is a matter of state tax policy, not an entitlement, and will depend on the taxpayer’s circumstances. The work group presented its report and suggested language to the Nexus Committee at its December 13, 2016 meeting.

The Committee considered the following issues at the December 13, 2016 meeting:

The Committee approved the disclaimer language recommended by the work group for the list of state lookback periods. The list will be published on the Nexus Program website, in order to provide helpful information to potential voluntary disclosure applicants. Chair Lennie Collins directed that Richard Cram circulate to Committee members the draft state lookback period list, so that each state can confirm its accuracy. Once that is accomplished, a Nexus Committee meeting by telephone will be scheduled to approve the list for publication on the Nexus Program website prior to the March 9, 2017 in-person Nexus Committee meeting.



The Committee reviewed the survey of results on how participating states are treating the question of “who is the taxpayer” in the context of a unitary group, for purposes of a voluntary disclosure agreement. Combined reporting states generally responded that a unitary group can be listed as a party to a voluntary disclosure agreement. Separate reporting states generally responded that each member of the unitary group would need to be separately listed as a party to the voluntary disclosure agreement.

The Committee reviewed the survey of participating states on how they treat net operating losses in voluntary disclosure agreements. The responses indicated that states had a variety of different approaches. After the Committee discussed the responses, Mr. Cram indicated he would revise and recirculate the survey.

The Committee discussed whether a protocol should be developed for receiving electronic payments in voluntary disclosure situations. Mr. Cram will circulate a survey among the states on their current requirements for receiving electronic payments in a voluntary disclosure agreement.

The Committee held a meeting on February 21, 2017 by telephone and approved for publication on the Nexus Program website the list of state lookback periods.

The Committee considered the following issues at the March 9, 2017 meeting:

Dan Bucks gave a presentation on his written analysis of voluntary tax collection agreements being entered into between Airbnb, on behalf of its lodging operators, and states or local governments. Mr. Bucks raised several concerns that such agreements were unnecessarily ceding state audit authority by giving up the ability to require disclosure and audit of Airbnb’s lodging operators, undermining the voluntary compliance process, and giving Airbnb and its lodging operators unfairly favorable treatment. Joe Huddleston expressed public comment in opposition to Mr. Bucks’ analysis.

Concerning the survey of participating states on how they treat net operating losses in voluntary disclosure agreements, Mr. Cram advised that after further review of the states’ responses, he did not see a need to revise and re-circulate the survey. The survey responses did contain one consistent thread: states do not allow a taxpayer to claim an NOL for a prior tax year unless the taxpayer has filed a return to establish that NOL. The Committee moved to add language to the Standard Agreement providing that NOLs are not allowed unless the taxpayer has filed a return for the tax year when the NOL is established.



Mr. Cram advised the Committee of the results of the survey among the states on their current requirements for receiving electronic payments in a voluntary disclosure agreement. Survey results showed that states require that the taxpayer be registered with the state prior to making an electronic payment.

The Committee convened meetings by telephone on April 18, May 16, June 20, and July 18, 2017, for the sole purpose of conducting closed sessions.



Report of the Training Program

Sherry Tiggett, Events & Training Manager

The Commission training program reached 164 participants during the year. This includes 79 participants at four in-person training courses and 85 at the 2016 Annual Conference in Kansas City, Missouri. Details on training events from the past year and scheduled for the coming year follow.

Courses Offered in 2016-2017

The following MTC courses were offered during the year:

Statistical Sampling for Sales and Use Tax Audits

- September 19-22, 2016, in Wheat Ridge (Denver area), Colorado, for 9 participants from City of Wheat Ridge, the City of Denver, and the Colorado Department of Revenue.
- May 16-19, 2017, in Sioux Falls, South Dakota, for 24 participants from the Colorado Department of Revenue, the Minnesota Department of Revenue, the South Carolina Department of Revenue, and the South Dakota Department of Revenue.

Computer Assisted Audit Techniques Using Excel

- October 18-19, 2016, in Hoover (Birmingham area), Alabama, for 22 participants from the Alabama Department of Revenue and the South Carolina Department of Revenue .

Nexus School

- November 29-December 1, 2016, in Montgomery, Alabama, for 24 participants from the Alabama Department of Revenue, the Idaho State Tax Commission, the Iowa Department of Revenue, and the Oregon Department of Revenue.

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

The training program also supported the 49th Annual Conference in Kansas City, Missouri, which was attended by 85 participants.



Courses Schedule for 2017-2018

The following course is currently scheduled:

- Nexus School, Atlanta, Georgia, September 20-21, 2017.

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

NASBA Certification and Continuation Education Credit

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

Training Fees and Host State Credit

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



Report of the Uniformity Committee

Holly Coon, Chair

Tommy Hoyt, Vice Chair

The Uniformity Committee met in person three times between July 1, 2016, to June 30, 2017—in Kansas City, Missouri, in July, in Houston, Texas, in December, and in San Diego, California, in March.

Work groups established by the committee have met regularly by telephone. Attendance at the meetings and participation in the work groups has been strong and we thank the state representatives and members of the public who have engaged in our uniformity efforts.

Projects by Status

Adopted by the Commission in 2017

- Amendments to the General Allocation and Apportionment Regulations – Sections 1 & 17

Currently Before the Commission

- None

Currently Before the Executive Committee

- None

Pending Bylaw 7 Survey

- None

Ongoing Uniformity Committee Projects

- Art. IV, Section 18 Work Group
- Partnership Work Group
- Model Sales and Use Tax Notice and Reporting Statute Work Group



Summary of Current Projects

Note: The MTC website has a web page for each uniformity project with information on that project.

Art. IV, Section 18 Project – Chair – Holly Coon, Staff – Bruce Fort

The Commission’s recommended amendments to Article IV, Sections 1 and 17 exclude from the receipts factor any receipts from hedging, securities, loans, and certain other intangibles. This may result in some taxpayers having no receipts factor (or only a di minimis factor), for example, where there is an investment affiliate filing in a state that has separate corporate reporting. The Section 18 work group is considering regulations that would include and source these otherwise excluded receipts (e.g. dividends, gains, interest, etc.) when necessary.

The work group has been meeting weekly by phone for almost two years. (The meetings were temporarily suspended from May until August, 2016, while the Executive Committee considered questions raised by practitioners about the exclusion of hedging and securities receipts under the then-proposed Section 1 and 17 regulations, now adopted. See minutes of the Executive Committee for May and July, 2016.)

The work group resumed its meetings and is currently in the final stages of drafting. The group has made a specific request to members of the public to bring to its attention any circumstances that the draft’s provisions may not sufficiently address—including circumstances involving hedging and investment activity.

Partnership Work Group – Chair – Tracee Abel, Staff – Helen Hecht

Soon after Congress passed the Bi-partisan Budget Act of 2015, requiring the IRS to implement an entity-level audit and adjustment process for large partnerships, the Uniformity Committee commenced an informational project and then formed a work group to consider how states may adapt to the new regime. The group has held bi-weekly meetings and has had the participation of members of the public including the ABA, AICPA, COST, TEI and IPT (what we all agree to refer to here as the “interested parties”).

At the March 2017 meeting, the Uniformity Committee was asked to expand the scope of the work group to address any entity-level tax issues (that is, issues states would need to consider if imposing a tax on partnership income at the entity level rather than the partner level), which it agreed to do. The committee was also asked to take up the process of amending the Commission’s model for Reporting Federal Tax Adjustments with Accompanying Model Regulations—adopted in 2003. The



committee agreed to review any proposed amendments brought forward by the interested parties (while reserving the question of whether it will specifically take up a project to amend the model).

The interested parties have presented a comprehensive proposed “Model Uniform Statute and Regulation for Reporting Adjustments to Federal Taxable Income and Federal Partnership Audit Adjustments” to the work group. The work group has so far focused its discussion on the proposal’s treatment of the partnership audit and adjustment issues.

Model Sales and Use Tax Notice and Reporting Statute – Chair – Phil Horwitz, Staff – Sheldon Laskin

The Executive Committee previously considered a draft model act to provide for remote sellers to report use tax information to states and notify in-state purchasers of a potential tax liability at the time of sale. The Executive Committee tabled the draft pending a decision in *Direct Marketing Ass’n v. Brohl*. The Tenth Circuit has now ruled that the Colorado statute is constitutional and that *Quill* does not apply to the information reporting requirements. *Direct Marketing Ass'n v. Brohl*, 814 F.3d 1129 (2016)(cert. denied).

At the in-person meeting of the Uniformity Committee in March, the committee voted to reconvene a work group and reconsider the draft for any necessary revisions. The group has been having regular meetings by phone, has developed an issue list, and is preparing to begin drafting revisions.

Other

The Uniformity Committee has also been asked to consider a proposal to amend the Commission’s Model Statutes for the Collection and Remittance of Lodging Taxes by Accommodations Intermediaries, adopted by the Commission in 2012. This proposal has been submitted by representatives of the hotel and lodging industry and had been informally commented on by representatives of online travel companies and Airbnb. Assuming that industry representatives can come to consensus on needed modifications to the model, the Committee has agreed to review those modifications.



Report of the Executive Director
Gregory S. Matson, Executive Director
Marshall C. Stranburg, Deputy Executive Director

This report is a summary of the Commission’s organizational and staff activities for the period July 1, 2016, through June 30, 2017 (unless otherwise noted).

I. Programs & Activities

A. Joint Audit Program

The Joint Audit Program has completed four income tax audits and parts of eight other income tax audits for the fiscal year 2017. The audit program also has completed eight sales tax audits and parts of six other sales tax audits for this same period. There are 21 income and 33 sales tax audits in progress.

The audit program has proposed assessments of \$167,460,884 for the completed income tax audits and \$3,753,760 for the completed sales tax audits for the fiscal year ending June 30, 2017.

The following chart summarizes hourly data for completed audits for fiscal year end June 30, 2017:

	Income & Franchise	Sales & Use	Total
Total Audits	4	8	12
Total States Audited	76	76	152
Total Hours	7,925	12,267	20,192
Average Hours per State	104	161	133

In October we added a new income tax auditor, Ali Pazand. Ali came to us highly recommended from the New Mexico Taxation and Revenue Department. During the interview process in hiring Ali, we felt that we had many qualified candidates. To take advantage of this highly qualified applicant pool, we decided to hire another income tax auditor. Virginia (Kay) Mick joined the income tax audit program in January 2017. Kay came to us highly recommended from the state of West Virginia. Both Ali and Kay report to Field Audit Supervisor Jeff Silver.



A Statistical Sampling Class for Sales and Use Tax Audits was held September 19 -22, 2016, in Wheat Ridge, Colorado. Bob Schauer was the instructor for this class. We also held a Computer Assisted Audit Techniques Using Excel class October 18-19, 2016, in Hoover, Alabama. Harold Jennings and L.D. Ridenour were the instructors for that class. Another Statistical Sampling Class for Sales and Use Tax Audits was held on May 16-19, 2017, in Sioux Falls, South Dakota. Bob Schauer was the instructor for this class with onsite assistance from Samuel Moon.

B. National Nexus Program

Multistate Voluntary Disclosure Program (MVDP)

The fiscal year results for 2017 are strong — although they did not reach the prior fiscal year results. The average value of disclosure contracts decreased slightly from last fiscal year.

- Nexus states' collections: \$19,664,097 (\$22,317,942 in FY 2016)
- Nexus states' executed contracts: 431 (488 in FY 2016)
- Nexus states' average contract value: \$ 45,624 (\$46,747 in FY 2016)

In addition, \$25,374 was collected for a non-member state, although voluntary disclosure applications for non-member states are no longer accepted. The above amounts include funds received by the Commission or paid by the taxpayer directly to the states and reported to the Commission. Interest on back tax paid and the value of a new taxpayer are not included.

Strategic Planning

The Nexus Committee completed the strategic planning project to improve the information on the Multistate Voluntary Disclosure Program (MVDP) website for clarity and ease of use. The Nexus Committee Work Group made several recommendations, which were approved at the Nexus Committee's July 25, 2016 meeting in Kansas City, Missouri. These included highlighting the visibility of the MVDP on the website with a sliding banner; substantial simplification and revisions to the application and instructions, the description of the National Nexus Program (NNP), and the standard agreement form; and elimination of duplicative information. The work group also recommended publishing the participating states' lookback periods on the NNP website. That issue was discussed further at the Nexus



Committee meeting on December 13, 2016, in Houston, Texas. The Nexus Committee approved for publication on the NNP website the list of participating states' lookback periods at its February 21, 2017 meeting conducted by telephone, and the list was published shortly thereafter.

Membership

There are currently 38 participating states (including the District of Columbia) in the NNP, with Delaware having joined at the beginning of the 2017 fiscal year. Commission staff continues to reach out to non-members.

Outreach

The NNP director presented on nexus issues and other state taxation issues on numerous occasions. These presentations are listed in section III. Staff continues to urge states to put a link to the NNP on their voluntary disclosure web pages.

Nexus Schools

NNP staff co-taught a Nexus School in Montgomery, Alabama, on November 30 and December 1, 2016. Please let a member of the Commission staff know if your state would like to host a school.

Amnesties

The NNP posts on its web page a list of upcoming and current state tax amnesties. Please inform NNP staff if you would like the Commission to post your state's amnesty.

Staffing

The NNP presently has three full-time staff members and one part-time staff member. Eva Wu, who had been the part-time staff member with the NNP since January 2016, completed her studies at Georgetown University and ended employment with the Commission at the end of May 2017. Angie Molina, a senior at Georgetown University, started work as the part-time staff member with the NNP on July 5, 2017, and will be with the Commission through the end of August 2017.



C. Legal Division

The legal division staffs two standing committees (Uniformity and Litigation) and provides support to the State Intercompany Transactions Advisory Service (SITAS) committee. The division also holds regular state tax attorney teleconferences; participates as speakers at conferences, symposiums and institutes; researches and writes articles on important state tax issues; and assists in teaching 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. It also provides legal support for the Commission's audit division, training division, and general administration, including analysis of federal legislation affecting state taxation.

The legal division completed its work on amendments to the Commission's general allocation and apportionment regulations while work continues on the Section 18 regulatory project, which included edits to the MTC's apportionment regulations, as directed by the Executive Committee in response to the hearing officer's report and public comments on the amendments to the general allocation and apportionment regulations. It has also begun work on new projects, as decided during the March 2017 Uniformity Committee meetings. The projects include a revival of the Colorado-type sales and use tax reporting model project; broadening the existing partnership project to consider provisions that would allow for entity-level tax; and a possible revision to the Commission's Model Statute for Collection and Remittance of Lodging Taxes by Accommodations Intermediaries. In addition, the legal division is implementing a new method of staffing uniformity groups, which includes maintaining drafters' notes to provide clarity and assistance to states that adopt the models.

The legal staff also has filed *amicus* briefs in support of member states.

Uniformity Work

The legal division has staffed the following uniformity projects:

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



- Model for Collection and Remittance of Lodging Taxes by Accommodations Intermediaries (possible update)

Litigation Committee Work

The legal division supported the Litigation Committee by organizing and making presentations at the in-person meeting in Kansas City, Missouri, in July 2016, and the in-person meeting in San Diego, California, in March 2017. At the San Diego meeting, the Litigation Committee approved a “charter” outlining committee policies and procedures and created an *amicus* brief group. The legal division has provided coordination and support to that group. At both meetings, the division offered state attorney training sessions, which were well attended.

Legal Assistance to States

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

- *Amicus* brief in *Renzenberger, Inc. v. New Mexico*, before the New Mexico Court of Appeals, Docket No. A-0001-CA-2015-34999 (federal preemption)
- *Amicus* brief in *DMA v. Brohl*, before the U.S. Supreme Court on petition for certiorari, Docket No. 16-458 (use tax information reporting requirements)
- *Amicus* brief in *Utah State Tax Commission v. See’s Candies*, before the Utah Supreme Court, Case No. 20160910-SC (application of I.R.C. Section 482-type authority)
- *Amicus* brief in *CSX Transportation v. Alabama*, before the 11th Circuit, Case No. 17-11705-G (federal preemption)

Commission Support

The legal division provides support for the commission’s general administration by addressing open meetings issues, maintaining confidentiality policies, handling records requests, researching and making recommendations for record retention policies, resolving lease disputes, reviewing contracts, and filing corporate registrations and reports. The division offered extensive analysis on draft federal legislation intended to mitigate the effect of *Quill* on collection of state use taxes and other draft federal legislation introduced at the start of the new administration. The division also provided legal assistance to the Commission’s Joint Audit Program on a number of challenging audit-related issues. The division supported the Commission’s training



program by teaching at the November 2016 Nexus School in Montgomery, Alabama. In further efforts to provide quality service, the legal division continues its project to overhaul the MTC's training program, making it more comprehensive and accessible.

D. Policy Research

The policy research director supports Commission efforts in addressing federal legislation with implications for state and local taxation, monitors state adoption of MTC model statutes, regulations, and guidelines. He is a member of the National Tax Association Advisory Board.

During this period the policy research director participated in the State Intercompany Transactions Advisory Service Committee training and information session in Indianapolis on October 5 and 6, 2016. He attended the Federation of Tax Administrators Revenue Estimating and Research Conference October 15 through 19, 2016, in Asbury Park, New Jersey. He consulted with Robert Ebel, former Chief Revenue Estimator, D.C. OCFO, on use of user charges to finance pay infrastructure debt and with Edith Brashears, U.S. Treasury on use of fulfillment companies to register small U.S. online retailers with OECD revenue agencies and collect VAT for these firms.

The policy research director hosted the Tax Economists breakfast forum at the Hall of the States on September 28, 2016, with John Hicks, Executive Director, NASBO, who discussed the Fiscal Condition of States.

The policy research director presented a paper with Professor Joann Weiner-Martens and John Alvarino of George Washington University for the National Tax Association Annual Meeting in Baltimore on November 10, 2016, on Comparison of Corporate Income Taxation in the European Union and the U.S. States. The Presentation was included in the NTA's Papers and Proceedings of the Annual Meeting (<http://www.mtc.gov/getattachment/50452352-7fc4-43d3-a8e1-c4a28bc34d00/CCTB,-Brexit,-and-Unitary-Taxation.pdf.aspx>). He also wrote an article with intern Trevor Ahouse "Trends in State and Local Government Finance, 1960 to 2015" for the *Journal of Multistate Taxation and Incentives*. The article appeared in November/December 2016 issue and will be updated for the annual meeting in 2017.

The policy research director began organizing a session at the annual meeting of the National Tax Association on the role of user charges in financing infrastructure spending.



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

- Tax Economist Forum Breakfast: Using IRS data to measure income inequality, Jerry Auten, Treasury Dep't.; at Ernst & Young – August 3rd
- Tax Economist Forum Breakfast: OECD Tax Initiatives, Tom Neubig; at Center for American Progress – September 7th
- Tax Economists Forum Breakfast: Education Tax Credits, Caroline Hoxby, Stanford University; at Hoover Institution – September 22nd
- Tax Economists Forum Breakfast: Methods to Mitigate income Shifting, Jane Gravelle, CRS; at American Action Forum – October 26th
- American Enterprise Institute/International Monetary Fund: U.S. Corporate Tax Reform and Implications for the International System – November 14th
- Tax Economists Forum Breakfast: Federal Tax Reform and Impact on the States, roundtable discussion – December 1st
- Regional Economic Modeling Institute: (REMI): Impact of Border Tax Adjustment on the States – December 15th
- Tax Economists Forum Breakfast: Lily Batchelder, Behavioral Changes in Business Taxation – the Impact of Expensing – December 20th
- Tax Policy Center: State of the States: Budgeting in the Trump Era, Kim Reuben – January 26th
- REMI/National Association of Business Economists (NABE): Border adjustments, – February 2nd
- Tax Economists Forum Breakfast: Fiscal and Monetary Policy Changes During the Great Recession, Jamie Lenney, et. al., Federal Reserve Bank; at Ernst and Young – February 15th
- Tax Economists Forum Breakfast: Business Cash Flow Tax Data, Elena Pater and John McClelland, Treasury Department; at Wells Fargo – March 1st
- Tax Economists Forum Breakfast: Government Support for Higher Education Through the Tax System, Mark Robyn, Pew Charitable Trusts; at Hoover Institute – March 15th
- Tax Economists Forum Breakfast: Economic Effects of Border Adjustments; at American Enterprise Institute – April 26th
- National Tax Association Annual Spring Symposium and Board Meeting – May 18th and May 19th
- REMI Luncheon: Local Impacts of the Federal Budget – May 25th
- Tax Economists Forum Breakfast: Transition to Retirement Peter Brady; at Investment Company Institute – June 7th



- Tax Economists Forum Breakfast: Revenue Productivity of the Internal Revenue Code, Robert Strauss; at Hall of the States – June 13th
- REMI Policy Conference: Impacts of Federal Fiscal Policy on State Economies – several REMI Model users presenting; at American Gas Association – June 16th and June 17th
- Tax Economists Forum Breakfast: Do Mortgage Subsidies Help or Hurt Borrowers, David Rapaport Federal Reserve System; at Price Waterhouse Coopers – June 28th

Policy research intern Trevor Ahouse completed his internship in August. Policy research intern Amelia Wang assisted with the paper presented at the NTA meeting in November. Ms. Wang began working at the International Monetary Fund, March 1st. Henry Wearmouth, Mt. Royal College, Calgary, Alberta, began his internship on May 24, 2017.

E. Legislative Division

The legislative counsel and director:

- Monitors and analyzes federal legislation that affects states in collaboration with the legal division and the director of policy research director;
- Coordinates any Commission response to federal legislation;
- Educates congressional members and staff about the negative effects of preemption generally and with respect to specific bills;
- Answers questions from member states about federal legislation;
- Monitors state legislation, identifies trends, and consults with states when requested;
- Collaborates with other multistate and governmental organizations; and
- Represents the Commission on state and federal legislation to policy makers and the public

During this year the legislative counsel has proactively developed relationships with federal legislators and staff, including the four new members on the House Judiciary Committee, which has jurisdiction over all state-tax legislation. He also has maintained and strengthened relationships with other organizations such as the State Tax Task Force of the National Council of State Legislatures, the National Governor’s Association, the Congressional Budget Office, as well as with the Commission’s collaborative work with the Federation of Tax Administrators. He has had two meetings with Senate staff and six meetings with House staff about pending



legislation and preemption generally and had a brief meeting with a House member (before his resignation) who is deeply involved in the remote use tax collection issue. He also assisted in the preparation of a letter to members of the House Judiciary Committee regarding the Mobile Workforce State Income Tax Simplification Act.

The legislative counsel created and maintains a public page on the Commission's website (<http://www.mtc.gov/Resources/Legislation>) to view legislative reports. The website updates every two hours for federal bills and daily for state legislation and contains reports, summaries, and analyses of federal and state bills. He has been a panelist and attendee at several meetings of outside organizations, which are listed in section III.

Significant federal bills introduced in the 115th Congress include:

- *No Regulation Without Representation Act of 2017* (H.R.2887); referred to the House Committee on the Judiciary. This bill would prohibit a state from enacting any law, regulation, or policy that affects any other state or its residents. It applies beyond tax law.
- *Mobile Workforce State Income Tax Simplification Act of 2017* (H.R.1393); approved by the House in a 'suspension of the rules' voice vote ('suspension' is supposed to be reserved for uncontroversial bills). H.R.1393 is pending in the Senate Committee on Finance. A subcommittee of Senate Finance held hearings on the Senate companion bill, S.540.
- *Mobile Workforce State Income Tax Simplification Act of 2017* (S.540); referred to Senate Committee on Finance. See H.R.1393, above.
- *Remote Transactions Parity Act* (H.R.2193); referred to Subcommittee on Regulatory Reform, Commercial And Antitrust Law of the House Committee on the Judiciary; no hearings or action since referral on May 5, 2017.
- *Marketplace Fairness Act of 2017* (S.976); referred to Senate Committee on Finance; hearing held by Senate Committee on Banking, Housing, and Urban Affairs. Permits member states of the Streamlined Governing Board (SGB) to require remote vendors to collect use tax on behalf of their state's citizens; allows states not members of the SGB to require remote vendors to collect use tax on behalf of their citizens when they enact enumerated simplifications to their sales and use tax laws.
- *MOBILE NOW Act of 2017* (S.19, Sec.20), formerly *Wireless Telecommunications Tax and Fee Collection Fairness Act*; approved by House Committee on the Judiciary and now on Senate Legislative Calendar No. 17 (available for Senate floor consideration); Sec.20 is unrelated to the rest of S.19; it preempts state tax authority over certain mobile wireless communication; we do not know how far



the preemption extends because the definition of preempted activity is unclear; it requires original jurisdiction in federal district courts notwithstanding the Tax Injunction Act.

- *End Discriminatory State Taxes for Automobile Renters Act of 2017* (H.R.2024 and companion S.1159); the House Committee on the Judiciary referred it to a subcommittee on May 1, where there has been no action; in the Senate it resides without action in the Committee on Finance. The bills would prohibit taxation of automobile rentals at a rate higher than the general sales tax rate.

F. Training

The Training staff supported the following activities since July 1, 2016:

Statistical Sampling for Sales and Use Tax Audits

September 19-22, 2016, in Wheat Ridge (Denver area), Colorado, for 9 participants from the City of Wheat Ridge, the City of Denver, and the Colorado Department of Revenue.

Computer Assisted Audit Techniques Using Excel

October 18-19, 2016, in Hoover (Birmingham area), Alabama, for 22 participants from the Alabama Department of Revenue and the South Carolina Department of Revenue.

Nexus School

November 29-December 1, 2016, in Montgomery, Alabama, for 24 participants from the Alabama Department of Revenue, the Idaho State Tax Commission, the Iowa Department of Revenue, and the Oregon Department of Revenue.

Statistical Sampling for Sales and Use Tax Audits

May 16–19, 2017, in Sioux Falls, South Dakota, for 24 participants from the Colorado Department of Revenue, the Minnesota Department of Revenue, the South Carolina Department of Revenue, and the South Dakota Department of Revenue.

The events and training staff were the principal coordinators of the 49th Annual Conference and Committee Meetings in Kansas City, Missouri. Excellent onsite support was provided by Beth Whaley and Laura Lewis with the Missouri Department of Revenue. The events and training staff have been the principal coordinators of the 50th Annual Conference and Committee Meetings in Louisville, Kentucky, and in securing space for the MTC Staff Retreat and Auditor Training in August 2017.



Wanda Dorsey-Jenkins returned on a part-time basis, as an events and training coordinator, to assist the events and training manager in handling registration, administrative and logistical support for all MTC meetings and training courses.

The events manager has participated in a number of professional development webinars and local educational meetings/conferences to sustain her Certified Meeting Professional (CMP) designation and her Certified Government Meeting Professional (CGMP) designation.

II. Administration

In September Wanda Dorsey-Jenkins returned to a part-time position assisting Sherry Tiggett with planning for committee meetings and training.

Ali Pazand joined the audit staff on October 1 as an income tax auditor. Ali had worked as an auditor with the New Mexico Taxation and Revenue Department since 2013.

On October 1, Renee Lee joined the legal department in a paralegal position. Previously Renee had worked in administrative legal positions with the District of Columbia and with Prince George's County, Maryland.

Lila Disque was promoted effective October 1 to the deputy general counsel position within the legal division. Lila has worked for the MTC since January 2013. There had not been a deputy general counsel at the Commission for a number of years.

Kathy Owens, senior sales tax auditor, retired on December 31, 2016. Kathy had worked for the Commission since December 1993.

Virginia (Kay) Mick joined the income tax audit program in January 2017. Kay comes to us from the state of West Virginia.

Nick Polimeros was promoted to senior income tax auditor effective March 1, 2017. Nick has worked for the Commission since February 2012.

Eva Wu, part-time staff member with the NNP since January 2016, completed her studies at Georgetown University and ended employment with the Commission at the end of May 2017.

Henry Wearmouth, a student at Mount Royal University in Calgary, Alberta, is working this summer with Elliott Dubin, MTC's Director of Policy Research. Henry



is updating a previously published article, “Trends in State and Local Finances: 1960 to 2015” by extending the information contained in that article to 2017. Henry came to the MTC via The Washington Center for Internships and Academic Seminars. Henry will be a senior in the coming school year and is majoring in Policy Studies.

Angie Molina, a senior at Georgetown University, started work as part-time staff member with the NNP on July 5, 2017, and will be with the Commission through the end of August 2017.

Following the implementation of the MTC’s record retention policy on November 30, 2016, staff have made significant progress in disposing of off-site paper records in accordance with the provisions of this policy. As of now the majority of the paper records stored off-site are those needing to be retained in accordance with periods stipulated in the record retention policy: completed taxpayer audits, accounting records, payroll records, and voluntary disclosure cases. The implementation of the record retention policy and the purging of unneeded paper records will result in the reduction of annual storage costs for the Commission.

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

- FTA Training for Management, Lean, and Plain Language; Indianapolis, Indiana (Matson)
- NYU Summer Institute in Taxation: Intermediate State & Local Taxation; *A View From the State Tax Administrators* (Matson, panelist); New York, New York
- Institute of Professionals in Taxation Annual Conference; *A Voyage Review of the MTC* (Shimkin, panelist); San Diego, California

AUGUST

- Georgetown 39th Annual Advanced State and Local Tax Institute; *Taking Advantage of State Audit Programs and Early Resolution Initiatives* (Getschel, panelist); *Protecting Taxpayers’ Confidential Information* (Hecht, panelist); Washington, D.C. (Shimkin)
- 2016 MSATA Conference; Des Moines, Iowa (Matson)



- NCSL Executive Committee Task Force on State and Local Taxation meeting; Chicago, Illinois (Shimkin)

SEPTEMBER

- NYU Law School's State and Local Tax Career Night; New York, New York (Hecht, panelist)
- IPT 2016 Sales Tax Symposium; *How the Economic Climate Impacts Decisions Made by Legislatures and Department Employees* (Stranburg, panelist); Indianapolis, Indiana
- 2016 WSATA Conference; *Partnership Tax Issues* (Fort, panelist); *Updates from FTA and MTC* (Stranburg, panelist); Scottsdale, Arizona
- 2016 NESTOA Conference; *MTC Joint Audit Program: What It Is, How It Works, and What Difference It Makes* (Matson); *Hottest Topics in State Taxation* (Hecht, moderator); *Sales Tax Potpourri* (Shimkin, panelist); Hershey, Pennsylvania
- National Marine Manufacturers Association; *Current Income Tax Nexus Issues for Small Manufacturers* (Cram, panelist); Washington, D.C.

OCTOBER

- Greater Washington Society of CPAs; *Sales Tax Basics for Non-Profit Organizations* (Cram); Washington, D.C.
- Streamlined Sales Tax Governing Board Meeting; *MTC Analysis of the Online Sales Simplification Act* (Cram); Atlanta, Georgia
- Crowell & Moring's Managing Tax Audits & Appeals Seminar 2016; *Multistate Tax Commission's Transfer Pricing Initiative* (Stranburg); Washington, D.C.
- D.C. Bar State and Local Tax Committee Lunch; *National State Tax Legislative Update and Outlook*; Washington, D.C. (Matson, Shimkin)
- COST's 47th Annual Meeting; *Radical Views on the Nation's Most Significant Tax Policy Issues: Debate Forum* (Hecht, panelist); Las Vegas, Nevada
- 23rd Annual Paul J. Hartman State and Local Tax Forum; *This Little Piggy Cried Wee, Wee, Wee All the Way Home* (Hecht, panelist); *Whither Quill/Due Process Clause* (Fort, panelist); *Transfer Pricing – MTC ALAS Project* (Stranburg, panelist); *Nexus: What's New?* (Stranburg, panelist); Nashville, Tennessee (Matson)
- Michigan Tax Conference; *The Personal Perspectives of Three Tax Stars* (Hecht, Panelist); Detroit, Michigan

NOVEMBER

- New York State Society of CPAs State Taxation Conference; *Income Tax Nexus Developments and the Multistate Voluntary Disclosure Program* (Cram); New York, New York



- National Tax Association Annual Meeting; *Comparison of Corporate Income Taxation in the European Union and the U.S. States* (Dubin); Baltimore, Maryland
- New England State and Local Tax Forum (Matson)
- NCSL Executive Committee Task Force on State and Local Taxation meeting; Dana Point, California (Shimkin)
- AICPA National Tax Conference; *State and Local Presentation* (Hecht); Washington, D.C.
- National Conference of State Legislators, *Implications of Federal Tax Reform* (Hecht, panelist); Washington, D.C.

DECEMBER

- NYU 35th Institute on State and Local Taxation; *Ethical Challenges for State Tax Professionals in an Era of Transparency* (Matson, Panelist); New York, New York

JANUARY

- NYU SALT Luncheon Group; *Tax Nexus Law Developments and the Multistate Voluntary Disclosure Process* (Cram); New York, New York
- NCSL Executive Committee Task Force on State and Local Taxation meeting; *Uniformity with Reporting Federal Audit Adjustments to States* (Shimkin, panelist), Scottsdale, Arizona
- FTA Midwinter and New Commissioner Meeting (Matson, Stranburg, Hecht); New Orleans, Louisiana
- Ohio Tax Conference; *Major National Issues in Business Taxation* (Stranburg, panelist); Columbus, Ohio
- ABA SALT Committee Meeting; *Factor Presence Nexus* (Cram, Panelist); Orlando, Florida
- New York State Bar Tax Section; *Developments in Market Based Sourcing* (Laskin, Panelist); New York, New York

FEBRUARY

- Georgetown State and Local Tax Institute Advisory Board Planning Committee Retreat; Washington, D.C. (Matson)
- FTA Compliance and Education Workshop; *Audit Sampling Session* (Jennings, panelist); Atlanta, Georgia (Getschel)
- Cornell SALT Study Group; *Tax Nexus Law Developments and the Multistate Voluntary Disclosure Process* (Cram); New York, New York
- Boston Bar Association; *Discussion of State Tax Cases, Issues & Policy Matters to Watch* (Fort, panelist), Boston, Massachusetts



MARCH

- Hartman State and Local Tax Forum Advisory Board Meeting; Palm Beach, Florida (Matson)
- ABA/IPT Advanced Sales and Use Tax Seminar; *Nexus Today – Overturning Quill?* (Cram, panelist); New Orleans, Louisiana
- ABA/IPT Advanced Income Tax Seminar; *A Lively Debate* (Hecht, panelist); New Orleans, Louisiana
- Prosper Show; *Income and Sales Tax: Compliance Risks for Amazon FBA Sellers* (Cram); Las Vegas, Nevada

APRIL

- COST's 2017 Spring Audit Session/Income Tax Conference; *RARs and Final Determinations* (Hecht, panelist); Wild Horse Pass, Arizona
- NYU SALT Luncheon Group; *MTC Update* (Matson); New York, New York
- 14th Annual New Mexico Tax Research Institute Tax Policy Conference; *E-Commerce, Remote Sales, Amazon Laws, and DMA* (Hecht); *Developments in State Taxes* (Hecht, panelist); *Debate on Emerging State Tax Issues* (Hecht, moderator); Albuquerque, New Mexico
- Ernst & Young 12th Annual Domestic Tax Conference; *Roundtable with State and Local Tax Government Officials* (Matson, panelist); New York, New York

MAY

- Ernst & Young 12th Annual Domestic Tax Conference; *Roundtable with State and Local Tax Government Officials* (Stranburg, panelist); Chicago, Illinois
- Ernst & Young State Tax Quarterly Webcast (Hecht, Matson); Washington, D.C.
- D.C. Bar State and Local Tax Committee; *End of Year SALT Roundtable* (Hecht, Matson); Washington, D.C.
- National Tax Association Annual Spring Symposium and Board Meeting (Dubin); Washington, D.C.

JUNE

- Bloomberg BNA Practical Applications of Transfer Pricing Concepts; Washington, D.C. (Matson, Stranburg, Getchel, Felix)
- Federation of Tax Administrators Annual Meeting; *Review of Legal Cases* (Fort, panelist); *Partnership Audits: Understanding and Dealing with the Change* (Hecht, panelist); *Challenges of the New (Home-and-Ride) Sharing Economy* (Cram, panelist); Seattle, Washington (Matson, Disque)



- Florida Institute of Certified Public Accountants Mega CPE Conference; *MTC Focus and Trends* (Stranburg, panelist); Kissimmee, Florida

Technology Addendum

Progress in developing a state contact portal has not been without issues. The code used to create the contacts in Exchange 2010 does not function fully and the vendor has seemingly abandoned the project. We may need to consider looking elsewhere for a contact portal solution.

The changes that were requested to the audit history database have been made and testing has been completed. The programmatic issues that we identified were addressed by Yoodle (our website hosting company). The audit director and network administrator have a list of future updates and adjustments that need to be made. A scope of work and quote are in the works currently.

The migration of the National Nexus Program (NNP) application continues. The guidance provided by RSI resulted in a partial migration of the VDK Application. The network administrator will continue to troubleshoot the issues that are not working. A support agreement will be drawn up by the network administrator for time and materials, similar to ones that we have had in the past. This should allow for the network administrator to get direct support from RSI. The network administrator and the NNP director still need to identify requirements for updating the online VDK Application. The network administrator is willing to work with any of the states that have a successful online VDK application to help develop requirements.

The VMWare system has been upgraded. New servers and a new storage unit have been purchased and will be configured and put in place very soon. The new equipment provides more processors, more memory, and more redundant storage. Once this equipment is in place, all virtual machines will be migrated to them.

The network administrator and Cleo have finished installation and configuration of the Unify portion of the installation. Unify is the secure file sharing portion used to securely share files that are too large for email. The remaining set up required is for the JetSonic client install on remote user's laptops. This will provide high speed file transfer for auditor files back to the D.C. office where it can then be backed up. The Network Administrator has attended and successfully completed a Cleo Harmony Administration class.



The remote access issues have been corrected on the Checkpoint firewalls. Access is still required between the Chicago and D.C. office in order for backup data from D.C. to be replicated to the Chicago office.

The New York office has been closed. The backup server and domain controllers that were in that office have been gracefully decommissioned and all data has been preserved. The data from the New York office is currently on a server in the D.C. office. Additionally, the copier that was in the New York office was moved by the copier company to the D.C. office and is being used by the NNP.

In addition to the new A/C unit in the Data Center, the Commission has purchased a two ton spot cooler that will be used in emergency situations when the A/C unit is down for maintenance or repair.

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



Multistate Tax Commission

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

**For the Years Ended
June 30, 2017 and 2016**

LSWG

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

**Multistate Tax Commission
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June 30, 2017 and 2016**

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

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, 2017 and 2016, and the related statements of revenue and expenses and changes in fund balance; unappropriated funds, changes in fund balance; appropriated funds, changes in fund balance; restricted funds and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2017 and 2016, 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, P.A.

Rockville, Maryland
November 1, 2017

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 655,791	\$ 2,246,026
Accounts receivable	2,205	34,495
Accrued interest	14,223	18,073
Prepaid expenses	122,066	46,777
Total Current Assets	<u>794,285</u>	<u>2,345,371</u>
Property and Equipment - at Cost		
Office furniture and equipment	550,073	469,115
Leasehold improvements	210,618	212,722
Less: accumulated depreciation and amortization	<u>(596,140)</u>	<u>(554,103)</u>
Property and Equipment - Net	<u>164,551</u>	<u>127,734</u>
Other Assets		
Investments	4,961,542	3,424,640
Expense account advances	6,000	6,400
Deposits	5,304	5,484
Total Other Assets	<u>4,972,846</u>	<u>3,436,524</u>
TOTAL ASSETS	<u>\$ 5,931,682</u>	<u>\$ 5,909,629</u>

LIABILITIES

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts payable	\$ 47,244	\$ 19,085
Accrued salaries and vacation pay	425,926	372,454
Unearned membership, program and registration fees	<u>20,440</u>	<u>151,371</u>
Total Current Liabilities	<u>493,610</u>	<u>542,910</u>
 TOTAL LIABILITIES	 <u>493,610</u>	 <u>542,910</u>
 Fund Balances		
Unappropriated	3,342,856	3,468,807
Appropriated	712,641	624,921
Restricted	<u>1,382,575</u>	<u>1,272,991</u>
Total Fund Balances	<u>5,438,072</u>	<u>5,366,719</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,931,682</u>	 <u>\$ 5,909,629</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>2017</u>	<u>2016</u>
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	\$ 5,973,697	\$ 5,619,890
Interest and dividends	128,382	138,658
Realized gain on investments	(45,881)	4,904
Unrealized gain (loss) on investments	(59,066)	18,611
Other income (loss)		
Training fees	64,560	171,579
SITAS fees	4,591	9,904
Conference fees	22,720	23,225
Loss on disposal of fixed assets	-	(12,690)
Total Revenue	<u>6,089,003</u>	<u>5,974,081</u>
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	15,000	17,293
Business insurance	19,281	20,516
Conferences and training schools	116,249	98,806
Depreciation	50,631	41,106
Bond amortization	52,504	62,026
Employee benefits	845,880	837,469
Miscellaneous	36,604	29,046
Consumable and durable supplies	39,873	55,343
Postage	7,475	17,569
Printing and duplicating	7,490	13,496
Professional services	249,978	224,878
Publications and electronic resources	38,759	38,324
Recruitment	-	750
Rent	281,479	270,946
Repairs and maintenance	17,306	10,678
Retirement plan	440,498	417,365
Salaries	3,621,907	3,398,360
Software licenses	34,184	32,825
Staff training	26,099	13,264
Subscriptions, publications, dues	65,705	43,624
Unified communications	31,491	32,002
Travel	233,949	301,788
Allocation of administrative expenses	(105,108)	(108,648)
Total Expenses	<u>\$ 6,127,234</u>	<u>\$ 5,868,826</u>

(continued)

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

	<u>2017</u>	<u>2016</u>
Excess of Revenue Over (Under) Expenses	\$ (38,231)	\$ 105,255
Transfer (to) from Appropriated Fund Balance	<u>(87,720)</u>	<u>(12,500)</u>
Total Amount Transferred	<u>(87,720)</u>	<u>(12,500)</u>
 FUND BALANCE - Unappropriated -		
Beginning of Year	<u>3,468,807</u>	<u>3,376,052</u>
 FUND BALANCE - Unappropriated -		
End of Year	<u>\$ 3,342,856</u>	<u>\$ 3,468,807</u>

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

MULTISTATE TAX COMMISSION

Statements of Changes in Fund Balance

Appropriated Funds

For the Years Ended June 30, 2017 and 2016

	Equipment Reserve	Enterprise Automation Project	50th Anniversary Conference	Staff Development	Total
Fund Balance - June 30, 2015	\$ 56,706	\$ 555,715	\$ -	\$ -	\$ 612,421
Transfer from Unappropriated Fund Balance	12,500	-	-	-	12,500
Net Amount Transferred (To) From Unappropriated Fund Balance	12,500	-	-	-	12,500
Fund Balance - June 30, 2016	69,206	555,715	-	-	624,921
Transfer from Unappropriated Fund Balance	15,000	-	15,000	60,000	90,000
Transfer to Unappropriated Fund Balance	-	-	(718)	(1,562)	(2,280)
Net Amount Transferred (To) From Unappropriated Fund Balance	15,000	-	14,282	58,438	87,720
Fund Balance - June 30, 2017	\$ 84,206	\$ 555,715	\$ 14,282	\$ 58,438	\$ 712,641

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, 2017 and 2016

	<u>4R Project</u>	<u>Nexus Program</u>	<u>Total</u>
Fund Balance - June 30, 2015	\$ 42,694	\$ 1,090,867	\$ 1,133,561
Revenue	-	813,801	813,801
Expenses	<u>-</u>	<u>674,371</u>	<u>674,371</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>139,430</u>	<u>139,430</u>
Fund Balance - June 30, 2016	42,694	1,230,297	1,272,991
Revenue	-	825,139	825,139
Expenses	<u>-</u>	<u>715,555</u>	<u>715,555</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>109,584</u>	<u>109,584</u>
Fund Balance - June 30, 2017	<u>\$ 42,694</u>	<u>\$ 1,339,881</u>	<u>\$ 1,382,575</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 71,353	\$ 244,685
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	50,631	41,106
Bond amortization	52,504	62,026
Loss on disposal of property and equipment	-	12,690
Unrealized (gain) loss on investments	59,066	(18,611)
Realized (gain) loss on sale of investments	45,881	(4,904)
Changes in assets and liabilities		
Accounts receivable	32,290	(34,291)
Prepaid expenses and accrued interest	(71,439)	(14,149)
Expense account advances and deposits	580	(400)
Accounts payable	28,159	(11,700)
Accrued salaries and vacation pay	53,472	(6,295)
Unearned membership, program and registration fees	(130,931)	876
Net Cash Provided by Operating Activities	<u>191,566</u>	<u>271,033</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(87,448)	(21,829)
Proceeds from sale of property and equipment	-	200
Purchase of investments	(5,475,018)	(153,111)
Proceeds from sale of investments	<u>3,780,665</u>	<u>1,197,883</u>
Net Cash Provided by (Used in) Investing Activities	<u>(1,781,801)</u>	<u>1,023,143</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,590,235)	1,294,176
Cash and Cash Equivalents - Beginning of Year	<u>2,246,026</u>	<u>951,850</u>
Cash and Cash Equivalents - End of Year	<u>\$ 655,791</u>	<u>\$ 2,246,026</u>
Supplemental Disclosures		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

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

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Accounts Receivable

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

Property and Equipment

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

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

Unearned Membership, Program and Registration Fees

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

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016 was \$478,738 and \$448,491, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., and Illinois under lease agreements with terms expiring on various dates through July 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>
2018	\$ 369,258
2019	377,770
2020	235,637
2021	2,424
2022	-

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, 2017 and 2016 was \$420,986 and \$416,689, respectively.

4. Appropriated Fund Balances

The Commission's Executive Committee authorized the Enterprise Automation Project fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$882,218 has been authorized in subsequent years. The purpose of this fund is to provide support, through professional services, for developing enterprise-wide applications for managing the Commission information resources in a manner that enhances its operations. As of June 30, 2017 and 2016 the Enterprise Automation Project fund balance was \$555,715.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

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, 2010. An additional \$105,000 has been authorized in subsequent years. The purpose of this fund is to provide support for purchases of computer equipment for the Commission's audit program and information technology department. As of June 30, 2017 and 2016, the Equipment Reserve fund balances were \$84,206 and \$69,206, respectively.

The Commission's Executive Committee authorized the 50th Anniversary Conference fund in the amount of \$15,000 during the year ended June 30, 2017. The purpose of the fund is to provide additional support for the Commission's 50th anniversary conference during August of 2017. As of June 30, 2017, the 50th Anniversary Conference fund balances was \$14,282.

The Commission's Executive Committee authorized the Staff Development fund in the amount of \$60,000 during the year ended June 30, 2017. The purpose of the fund is to provide the financial resources for a two-day staff development meeting to be held in August 2017. As of June 30, 2017, the Staff Development fund balances was \$58,438.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Project was established whereby contributions received are restricted to use for supporting education, lobbying and legal expenses related to this property tax project. The purpose of the project is to provide for research activities as well as to seek favorable changes in Federal laws which are related to property tax restrictions of state and local governments. As of June 30, 2017 and 2016, the 4R Project fund balance was \$42,694.

During the year ended June 30, 1992, the National Nexus program was established. This program, funded by participating states, aims to encourage and secure taxpayer compliance with current state laws, a liability resolution process, and information sharing among member states. The contributions received from the participating states are restricted for this purpose. As of June 30, 2017 and 2016, the National Nexus program fund balances were \$1,339,881 and \$1,230,297, respectively.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

6. Deferred Compensation Plan

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

The Commission believes it has no liability for losses under the plan but does have a duty of due care that would be required of an ordinary prudent investor. Investments are managed by the plan's trustee, and the plan provides approximately fifteen investment options or a combination thereof. The participants make the choice of the investment option(s).

7. Investments

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

	Cost 2017	Market 2017	Cost 2016	Market 2016
Investments				
Mutual funds	\$ 2,452,560	\$ 2,442,300	\$ 1,455,032	\$ 1,488,053
Money market funds	6,453	6,453	15,564	15,564
Corporate bonds	212,772	212,545	287,707	290,146
Commercial paper	979,293	979,157	-	-
US Government and Agency securities	1,320,842	1,321,087	1,617,931	1,630,877
Total Investments	<u>\$ 4,971,920</u>	<u>\$ 4,961,542</u>	<u>\$ 3,376,234</u>	<u>\$ 3,424,640</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, 2017 and 2016, the Commission paid investment fees of \$15,847 and \$21,789, respectively.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

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.

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 1, 2017, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION



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

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

To the Executive Committee of
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission as of and for the year ended June 30, 2017, and our report thereon dated November 1, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

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

Linton, Shafer Warfield & Garrett, P.A.

Rockville, Maryland
November 1, 2017

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2017

	Unappropriated and Appropriated Funds				Restricted Funds			
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Auditing and payroll services	\$ 12,500	-	\$ 2,500	-	\$ 15,000	\$ -	\$ -	\$ 15,000
Business insurance	-	-	19,281	-	19,281	-	-	19,281
Conferences and training schools	93,921	13,113	910	8,305	116,249	13,193	13,193	129,442
Depreciation	-	11,160	39,471	-	50,631	-	-	50,631
Bond amortization	52,504	-	-	-	52,504	-	-	52,504
Employee benefits	157,590	576,286	105,637	6,367	845,880	57,964	57,964	903,844
Miscellaneous	1,449	14,321	14,034	6,800	36,604	4,974	4,974	41,578
Consumable and durable supplies	13,476	9,614	16,602	181	39,873	763	763	40,636
Postage	1,816	2,606	2,644	409	7,475	7,235	7,235	14,710
Printing and duplicating	3,188	534	221	3,547	7,490	133	133	7,623
Professional services	172,384	-	72,894	4,700	249,978	-	-	249,978
Publications and electronic resources	1,030	23,551	14,178	-	38,759	-	-	38,759
Rent	99,652	61,137	120,690	-	281,479	139,507	139,507	420,986
Repairs and maintenance	-	4,769	12,537	-	17,306	21	21	17,327
Retirement plan	87,661	297,252	53,041	2,544	440,498	38,240	38,240	478,738
Salaries	739,834	2,405,829	450,500	25,744	3,621,907	326,637	326,637	3,948,544
Software licenses	628	-	33,556	-	34,184	-	-	34,184
Staff training	13,266	3,755	9,078	-	26,099	1,494	1,494	27,593
Subscriptions, publications, dues	50,538	12,127	2,245	795	65,705	9,396	9,396	75,101
Unified communications	10,419	14,516	6,556	-	31,491	3,707	3,707	35,198
Travel	66,827	140,440	15,557	11,125	233,949	7,183	7,183	241,132
Allocation of administrative expenses	270,635	616,389	(992,132)	-	(105,108)	105,108	105,108	-
Total Expenses	\$ 1,849,318	\$ 4,207,399	\$ -	\$ 70,517	\$ 6,127,234	\$ 715,555	\$ 715,555	\$ 6,842,789

The accompanying notes are an integral part of this schedule.

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