



MULTISTATE TAX COMMISSION

*Maximizing the synergies of multi-state tax cooperation*

To: Members, Executive Committee  
From: Rich Jackson, Treasurer  
Date: April 21, 2015  
Subject: The FY 2016 Budget

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## **I. Commission Budget Process**

Each year at a meeting or teleconference held in May or June, the Executive Committee sets the fee levels for major programs:

- Membership assessments for Compact Members and Sovereignty Members,
- Audit fees for Audit Program States, and
- Nexus fees for National Nexus Program states.

The Executive Committee may at this time, as at any other, consider special requests for expenditures, the establishment or modification of appropriated funds (funds dedicated to a particular purpose) or the authorization of fees for special projects.

This is also the time when the Executive Committee reviews and approves the expenditures budget for FY 2016, subject to any major issues developing between now and the Annual Commission Business Meeting. If anything like this were to occur, then the proposed budget could be revised and a teleconference meeting of the Executive Committee could be held before the July 29<sup>th</sup> Commission meeting.

If both the fees part of the budget and the expenditures part of the budget are approved, there would be no need (*based on what is now known*) for any additional budget related meetings of the Executive Committee before the ratification of the FY 2016 budget by the Commission on July 29 in Spokane, Washington.

## **II. Commission Fee Structure**

### ***General Membership Assessment (Compact & Sovereignty Members)***

The general membership assessment (GMA) finances the uniformity, research, interaction on federal legislation, legal support, and litigation activities of the Commission as well as supporting the annual conference.

The total membership assessment is set to cover the above activities and departments. Then the total membership assessment is distributed to the states according to a formula in the Multistate Tax Compact whereby 10 percent of the fees are divided on an equal basis, and 90 percent on the basis of relative shares of certain state and local revenues (as specified in Art. VI, Sec. 4(b) of the Compact). The state and local revenues are determined by a survey of the states.

### ***Joint Audit Program Fees***

The audit fees support the audit services provided to states through the Joint Audit Program.

Overall audit fees are set on a reimbursement basis to cover the costs of operating of the program. They are distributed among the states by a schedule approved by the Executive Committee. The distribution of the fees among participating states is based on a long-range schedule of fee changes adopted in May 1991.

States participating in both income and sales tax audits pay a base fee amount that is equal for each state and is based on a cost reimbursement method. States participating in only income or sales tax audits pay an amount equal to 60 percent of the base fee amount for participating in both types of audits. States that are not compact or sovereignty members also pay an additional 20 percent general operations support fee. Those participating states which are among the 10 smallest states (including the District of Columbia) by population are given a 10% reduction in audit fees.

### ***National Nexus Program Fees***

Nexus fees support the compliance activities of the National Nexus Program.

Total nexus fees are set to cover the costs of operating the program. The nexus fees are apportioned among participating states according to a formula whereby 60 percent of the costs are divided on an equal basis, and 40 percent on the basis of relative shares of state tax revenues of participating states (obtained from the Bureau of the Census). States participating in only the income or sales tax aspects of the program pay 60 percent of the equal share, but otherwise pay the 40 percent component just as those participating in both.

Nexus fees are also capped such that no state pays more than five percent of the total program fees. States that are not compact or sovereignty members also pay an additional 20 percent general operations support fee.

### ***Training Program Fees***

These are set on a full cost recovery basis in accordance with the direction of the Executive Committee.

## **III. The FY 2016 Budget**

### ***Revenues***

Fee increases are requested for FY 2016 (as compared to FY 2015 fee levels):

Membership Assessments:	2.0% (calculated on the total assessments)
Audit Reimbursements:	2.0% (calculated on the base audit fee)
Nexus Program Fees:	2.0% (calculated on the total Nexus fees)

These requested fee increases for FY 2016 are the same as what were projected within the FY 2015 approved budget document.

Issues or comments affecting fee levels:

- **General Operations Support Fee**

This is fee of 20% that is added to the Audit Program fee and/or Nexus Program fee of states which are neither a Compact nor Sovereignty member. This amount is

assessed on non-Compact and non-Sovereignty members to support the general operations of the Commission. As such this amount is transferred from either the Audit Program or the Nexus Program to support the General Operations of the Commission. For FY 2016 the amount of general operations support fees are \$222,474 from the Audit Program and \$66,735 from the Nexus Program. These fees help mitigate the need for additional increases in the total Membership fees.

- **Iowa, Pennsylvania, and Rhode Island Participation in the Audit Program**

FY 2015 was the first year of the three year phase-in period for the participation of Iowa, Pennsylvania, and Rhode Island in the MTC Audit Program. The audit fee level for these states was set at 35% of the fully phased-in fee amount for FY 2015 and 75% of the fully phased-in fee amount for FY 2016. In FY 2017 the audit fee for these states will be set at the fully phased-in audit fee level in accordance with the contracts with these states.

### ***Expenditures***

In general, the requested expenditure amounts in the attached requested FY 2016 budget reflect a continuation of current activities.

The most important factors affecting the expenditures budget are as follows:

1. The FY 2016 requested expenditure total of \$7,001,404 for continuing operations is 1.6% more than the FY 2015 approved expenditures for *continuing* operations of \$6,891,308 (which excludes the \$52,756 of expenses for the Arm's Length Adjustment Service Project). This expenditure request is substantially a same services / same positions continuation request.
2. A 240-hour temporary/part-time assistant position was added into the National Nexus Program (providing for part-time administrative help to be hired from time to time as needed).
3. An estimated 5.0% health insurance premium increase. [The CareFirst health insurance plan year begins September 1].
4. A proposed 2.0% overall salary adjustment.

Staffing Levels as budgeted for FY 2016 are as follows:

	<u>FTEs</u>
General Operations (Executive, Legal, Legislative, and Policy & Research)	5.10
Audit Program	26.92
Training & Education Programs	.76
Nexus Program	4.49
Administration (Information Technology, and General Administration)	<u>7.35</u>
<b>TOTAL</b>	<b>44.62</b>

Staff time is allocated to and charged to the Training & Education Program as staff performs duties associated with the various schools (Nexus schools, Statistical Sampling schools, *etc.*).

In addition to the 45 FTEs which are funded positions we are requesting two intern positions which are currently unfunded. One or both of these intern positions might be filled if surplus funds become available.

#### **IV. The FY 2017, FY 2018, and FY 2019 Budget Projections**

##### **Revenue Increases**

The percentage fee increases projected for fiscal years *beyond* the FY 2016 budget year are:

<b>Description</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
Membership Assessments	2.00%	2.00%	2.00%
Audit Program Fees	2.00%	2.00%	2.00%
Nexus Program Fees	2.00%	3.00%	3.00%

##### **Expenditure Increases**

The percentage increases used for each annual expenditure increase shown *beyond* the FY 2016 budget year are:

<b>Description</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
Salaries and Retirement	2.00%	2.00%	2.00%
Employee Insurance	5.00%	5.00%	5.00%
Other Operating Expenses	3.00%	3.00%	3.00%

Note that a substantial portion of “Employee Insurance” is group health insurance for which continuing large annual rate increases are anticipated.