MULTISTATE TAX COMMISSION

To:	Members, Executive Committee
From:	Joe Huddleston, Acting Treasurer
Date:	July 1, 2011
Subject:	The FY 2012 Budget – July Commission Version

I. Commission Budget Process

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

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

Due to the timing of the spring Executive Committee meeting this year (early June), it seemed appropriate to request that the Executive Committee review and approve the expenditures budget for FY 2012 at this meeting also.

Thus, the fees part of the budget **and** the expenditures part of the budget were approved by the Executive Committee at its teleconference meeting on June 6. The budget for FY 2012 is now being presented for the ratification by the Commission at its annual meeting in Whitefish, Montana.

II. The FY 2012 Budget – Revenue Recap and Update

Fee increases are requested for FY 2012 (as compared to the *approved* FY 2011 fee levels):

Membership Assessments:	0.0% (calculated on the total assessments)
Audit Reimbursements:	2.0% (calculated on the base audit fee)
Nexus Program Fees:	1.0% (calculated on the total Nexus fees)

Note that an individual state's membership assessment may change for FY12 versus FY11 due to changes in the apportionment of the overall fees as a result of changes in the relative tax revenues used to apportion the total fees.

An addendum providing details of the Commission's fee structure is attached.

Issues or comments affecting fee levels:

- **Total Membership Assessments**

The FY 2012 budget was approved in early June by the Executive Committee with total membership fees set at the same total amount as in FY 2011, that being a total of $1,747,640. South Carolina has now joined the Multistate Tax Commission as a Sovereignty member effective July 1. Therefore, the total membership fees presented to the Commission for approval ($1,790,275) are higher than in the approved Executive Committee version of the budget by the amount of the South Carolina fees of $42,635.

- **General Operations Support Fee**

This is the "20%" fee that is added to the Audit Program Fee and/or Nexus Program 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 related to support of the respective programs. 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 2012 the amount of general operations support fees are $140,616 from the Audit Program and $63,051 from the Nexus Program. These fees help mitigate the need for additional increases in the total membership fees. [The reduction of the amount of these support fees due to South Carolina joining as a Sovereignty member was $33,140].

- **Tennessee's Participation in the Audit Program**

FY 2010 was the first year of the three year phase-in period for Tennessee as it entered the MTC Audit Program. In FY 2010 the audit fee level of Tennessee was set at 35% of the fully phased-in amount. In FY 2011 the audit fee for Tennessee was set at 75% of fully phased-in audit fee level. In FY 2012 the audit fee for Tennessee will be at fully phased-in audit fee level

- **South Carolina's Participation in the Audit Program**

FY 2011 was the first year of the three year phase-in period for South Carolina as it entered the MTC Audit Program. In FY 2011 the audit fee level of South Carolina was set at 35% of the fully phased-in amount. In FY 2012 the audit fee for South Carolina will be set at 75% of fully phased-in audit fee level.

- **Dollar Amount of Requested 2.0% Base Audit Fee Increase**

The requested 2-tax base audit fee (for a Compact or Sovereignty member state) would be an increase of 2% from $191,500 for FY 2011 to $195,300 for FY 2012**.** The overall dollar amount of the 2% increase in the base audit fee itself is $71,000, while the continuing phase-in of South Carolina and Tennessee into the Audit Program account for $95,686 and $65,571, respectively. Hawaii's rejoining the Audit Program adds $185,000 back to the audit fee total. The 2.0% increase in the base audit fee is being implemented to add an additional auditor position effective 07/01/2012 (as noted below in the expenditures section).

- **Audit Fee Developments After the Executive Approval of June 6**

For FY 2012 Nebraska will return to "full fee" status (for a 1-tax state). This increased the audit revenues in the budget for FY 2012 by $90,616. The change of South Carolina's status from non-member to sovereignty member has no *net* impact on audit fees available to the Audit Department because fee-wise this change only eliminates the general operations support fee for South Carolina.

- **Nexus Fees**

Total Nexus Fees for FY 2012 of $857,155 include a requested 1% increase over the approved fees of $852,690 for FY 2011. The 1% fee increase is to help build up funds for the development of technology improvements for the Voluntary Disclosure Program. The change of South Carolina's status from non-member to sovereignty member has no net impact on nexus fees available to the Nexus Program because fee-wise this change only eliminates the general operations support fee for South Carolina.

III. The FY 2012 Budget – Expenditures Recap and Update

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

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

1. An estimated 15.0% health insurance premium increase. [The CareFirst health insurance plan year begins September 1].
2. A proposed 2.5% overall salary adjustment. [The last MTC salary increase for MTC staff was for FY 2009 and took effect on July 1, 2008].

3. It is proposed that the Audit Program will add one additional audit position for FY 2012 fiscal year on July 1, 2011. [There is *currently* one vacant position in the Audit Program].
4. Approximately $188,000 of expenditure line item reductions in other operating expenses have been made when comparing requested FY 2012 expenditures versus FY 2011 approved expenditures.
5. The percentage increase in FY 2012 requested total expenditures versus FY 2011 approved total expenditures is 3.0% *before* the cost of the new/additional audit position is added and 4.4% *after* the cost of the new/additional audit position is added.

Additional expenditures funding was added to this final version of the FY 11/12 budget (and compared to the June version of the budget) in order to provide support for states' travel to the MTC Commission meeting in Whitefish, Montana.

Staffing Levels as budgeted for FY 2012 are as follows:

	FTEs
General Operations (Executive, Legal, Training Management, and Policy, Research, & Communications)	8.86
Audit Program	24.83
Training Programs	.69
Nexus Program	4.63
Administration (Information Technology, and General Administration)	7.13
TOTAL	**46.14**

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

Total Surplus/Deficit for All Programs

Programs overall (General Operations, Training & Education, Audit, and National Nexus) have been budgeted at a roughly break-even basis.

IV. The FY 2013, FY 2014, and FY 2015 Budget Projections

Revenue Increases

The percentage increases used for each annual revenue increase shown *beyond* the FY 2012 budget year are:

Description	FY 2013	FY 2014	FY 2015
Membership Assessments	2.00%	4.00%	4.00%
Audit Reimbursements	2.00%	5.00%	5.00%
Nexus Program Fees	1.00%	1.00%	1.00%

Expenditure Increases

The percentage increases used for each annual expenditure increase shown *beyond* the FY 2012 budget year are:

Description	FY 2013	FY 2014	FY 2015
Salaries and Retirement	2.00%	3.00%	3.00%
Employee Insurance	15.00%	15.00%	15.00%
Other Operating Expenses	3.00%	3.00%	3.00%

Note that "Employee Insurance" is primarily group health insurance for which large annual increases are anticipated to continue.

IV. Requests for Additional Appropriations – Effective June 30, 2011

Included in the budget document are amounts requested for addition to certain appropriated funds:

- Equipment Reserves Fund - $12,500

This amount would come out of the FY 2011 surplus in the activities in the unappropriated funds and will be set aside for future purchases of notebook computers in the audit program. The replacement of this type equipment has historically occurred about every three years.

- Enterprise Automation Fund - $100,000

This amount would come out of two sources: $50,000 from the FY 2011 surplus in the activities in the unappropriated funds and $50,000 from the FY 2011 surplus in the activities of the restricted funds (Nexus Program). These funds are being set aside for future development of enterprise-wide applications.

- Federal Tax Information Data Exchange & Analysis Fund (a new appropriated fund) - $86,556

This amount equals the amount the Multistate Tax Commission received upon the dissolution of TaxNet Governmental Communications Corporation in December 2010. This amount is being set aside to fund a part-time (less than 30 hours per week), one-year position with the MTC headquarters staff in Washington, D.C. The person in this position would establish and monitor the operation of the Commission as an agent and representative of those states who executed a memorandum of understanding requesting contractor services with respect to federal tax information (FTI) disclosed to the MTC under IRC 6103(n) for enumerated tax administration purposes.

Specifically, this person would complete the remaining steps necessary for the MTC to receive FTI, establish and monitor internal procedures and conduct data analysis in support of the Joint Audit Program and other compliance objectives consistent with IRS Safeguard requirements. This person would, before the end of the one-year appointment and working with existing staff, evaluate the usefulness and potential of FTI so that the Commission can determine whether it makes sense to maintain an FTI data exchange program going forward. This part-time, temporary position would ideally be filled by someone familiar with state tax compliance issues, audit techniques, accounting and data analysis, fed-state information practices, and IRS safeguard procedures; the person filling the position would need to be located in the Washington, D.C., metropolitan area, and have both accounting and legal credentials.

Attachment

SUMMARY OF MEMBERSHIP & PROGRAM FEES

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 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 reimbursements 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.

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.