Sixteenth Annual Report

Multistate Tax Commission

Fiscal Year 1982 - 1983
For the fiscal year of July 1, 1982 - June 30, 1983
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November 1, 1983

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

The purpose of the Multistate Tax Commission is to bring even further uniformity and compatibility of the tax laws of the various states of this nation and their political subdivisions insofar as those laws affect multistate business, to give both business and the states a single place to which to take their tax problems, to study and make recommendations on a continuing basis with respect to all taxes affecting multistate businesses, to promote the adoption of statutes and rules establishing uniformity, and to assist in protecting the fiscal and political integrity of the states from federal confiscation.

I respectfully submit to you the sixteenth annual report of the Multistate Tax Commission. This report covers the Commission's activities for the fiscal year beginning July 1, 1982 and ending June 30, 1983. It includes a report on receipts, expenditures and operations for that period from Rhode, Scripser & Associates, Certified Public Accountants in Boulder, Colorado.

Respectfully submitted,

[Signature]
Eugene F. Corrigan
Executive Director
Executive Director's Report

The Container Case

For the WTO, fiscal 1983 was a vintage year capped off by a year-end Supreme Court victory of huge proportions. The June 27 decision in Container Corp. of America v. Franchise Tax Bd., U.S. ___, 103 S. Ct. 1933 (1983), set to rest once and for all any dispute as to the constitutionality of worldwide combined unitary apportionment as applied to a U.S. parent and its foreign subsidiaries. In doing so, it corrected the many misinterpretations of the Court's position which followed the ASARCO-Woolworth decisions.

Those decisions have been relegated to the limbo of special fact situations with which the Court are unlikely ever again to be faced. Their sole continuing lesson was foretold in the Mobil and Exxon cases: no party, whether taxpayer or state, should take an interstate taxation case to court without having introduced into the record a fully developed factual presentation which takes into account the applicability of worldwide unitary apportionment; and no state court should fail to take that factual record fully and explicitly into account in rendering its decision. That state courts remain acutely aware of that lesson was evident in the detailed factual examinations in which the Alaska and Montana Supreme Courts engaged in rendering their decisions in Earth Resources Co. v. State Dept. of Rev. of the State of Alaska, 565 P.2d. 960 (1977), and Russell Stover Candies v. Dept. of Rev. of the State of Montana, 565 P.2d. 196 (1977). The quality of these decisions provides a basis for thinking that the U.S. Supreme Court's intention to refrain from second-guessing state courts in interstate taxation cases, an intention expressed in Container, is a wise one which evidences a well-placed confidence in state supreme courts.

Indirect Effects of Container

Political Pressure on White House

Container seems finally to have convinced the big business community of the futility of attacking worldwide combined unitary apportionment in the courts, except in cases which involve foreign parents. Their despair here has caused some business representatives to redouble their efforts in the political arena. Throughout the summer of '83, the Administration was deluged with requests, even demands, not only from American multinationals but from foreign ones and their national governments.
Their purpose was twofold: 1) to get the Administration to file an amicus curiae brief in support of Container’s Petition for a Rehearing Before the Supreme Court; and 2) to get the Administration to support Machias/Enable-type federal legislation which would preclude the states from utilizing the worldwide combined unitary apportionment principle and would effectively eliminate from state taxation dividends received from foreign corporations. The Administration stood firm against such an initiative. (The Supreme Court subsequently denied the Petition for Rehearing.)

Appointment of “Working Group”

Instead, a Presidential “Working Group” was established, consisting of members from states (including governors, legislators and tax administrators), major international businesses and the federal government (including representatives of the White House, the Treasury Department and the State Department). Its task is to seek to establish a consensus on the basis of which to resolve stated concerns of all affected parties. That is a tall order, given the nature of the problem and the disparity of interests involved. Nevertheless, starting with a November 2 meeting, the Group addressed itself to the task.

MTC Litigation

U.S. Steel

The litigation with U.S. Steel is winding down as the MTC gains victory after victory despite the delaying strategies of the taxpayer. The most recent victory was accorded the MTC by the Ninth Circuit Court of Appeals.

At ultimate issue is the right of the taxpayer to refuse to allow a complete joint audit in an effort to control the manner in which the audit is performed. In refusing to submit certain of its books and records for examination, U.S. Steel created delays when, as a result, statutes of limitation ceased expiring. U.S. Steel refused to agree not to use those expirations as a bar to completing the audit. Consequently, states participating in the audit issued estimated assessments. U.S. Steel then contended that the legality of the assessments precluded any further auditing.

On August 31, 1983, the Court of Appeals disagreed. It then remanded the case back to the U.S. District Court for Idaho in Boise for a determination of whether or not U.S. Steel has complied with the latter court’s October 16, 1980 order that U.S. Steel submit requested books and records for examination. The District Court has set the matter down for a December 20, 1983 hearing.
This has been an important piece of litigation in that it has established firmly the right of the states to examine those materials which they consider to be needed in order to determine whether any outstanding tax liability on the part of the taxpayer exists. The right to accomplish this through the mechanism of the WTC audit program was confirmed by the U.S. Supreme Court in early 1975. The Idaho case has been important in eliminating any basis for litigation impediments to that program.

Now

On November 14, 1982, the Oregon Tax Court ordered the taxpayer to take available to the Commission's auditors "any of their account books, papers, records or other documents, including corporate minutes of Dow and its subsidiary and affiliated corporations, for examination to the extent that such examination is material and relevant to the income tax audit by the WTC ...." WTC et al. v. Dow Chemical Co., 3 OTR 272 (1982). The court denied the WTC's request that, because of the taxpayer's delaying actions, the court toll the statutes of limitation pending the completion of the audit. Calling the WTC's request "unreasonable," the court said that it "should not read into statutes of limitation an exception which has not been embodied therein by the legislature...." The WTC sought to appeal the latter ruling to the Oregon Supreme Court; but on November 1, 1983, after argument, that court dismissed the appeal on procedural grounds without reaching the merits of the statute of limitation issue. Meanwhile, the audit had been completed.

Committees

Audit

The Audit Committee, under the chairmanship of Horace Gailey of Utah, met four times during the year and has continued to monitor the audit activities of the Commission. It participates in the selection of audits, oversees the manner in which audit policy is implemented and, from time to time, suggests to the Commission any new policy decisions which it may consider to be appropriate. The Committee also encourages the states to support and to follow through on recommendations which result from the performance of audits which have been assigned by those states.

Uniformity

The Uniformity Committee, under the chairmanship of Bob Keesler of North Dakota, also met four times during the year. It continues to consider means by which increased uniformity can be achieved. As a result of its activities, the Commission conducted a hearing on an Airline Regulation in December of 1982 and then adopted the Regulation at its annual meeting in July. That Regulation is appended hereto as Appendix B.
Tax Consistency Task Force

This group met only once during the year. Its consensus appeared to be that true uniformity could best be accomplished through the mechanism of an independent decision making body to which problems could be submitted by states and taxpayers alike for solution. Such a solution would call for consistent treatment of a taxpayer by the various states in which the taxpayer conducts its business; it would also call for consistent treatment of those states by the taxpayer.

Workshop

In December of 1982, the Commission conducted a workshop on Safe Harbor Leases. The some sixty representatives of the states and of the business community reached unanimous agreement that the best approach was that suggested by F. Edward Denniston, Vice President of Taxes for Evans Products Company, of Portland, Oregon.

Publications

The MTC Review

The Commission published two issues of the Multistate Tax Commission Review. Published in the format of a magazine, it contains news and articles pertaining to the Commission and to current interstate taxation matters. It is distributed to the MTC's large mailing list.

MTC Legislative Handbook

The Commission also published a new MTC Legislative Handbook which is designed to be an interstate taxation resource for legislators. The Commission makes it available to legislators upon request.

1982 Handbook on Unitary Apportionment

The Commission published the third edition of the MTC Handbook on Unitary Apportionment in three years. The 1982 edition is the most complete publication of materials on the subject which is available anywhere. It contains a 68-page complete teaching outline which covers the subject in great depth. It also contains a master list of 420 citations to key decisions and pertinent articles. In addition, it contains summaries of 48 important unitary cases, including three which were decided in 1982. The full texts of the decisions in the latter three cases are also included, as well as several model briefs plus reprints of six important unitary apportionment articles which have been published elsewhere during the year. The Handbook is a must for anyone seeking either to teach or to learn about the subject of unitary apportionment.
Conclusion

The Commission has long been a dynamic catalyst for the development and implementation of new ideas and policies aimed at improving the ability of the states to apply their taxes to interstate taxation fairly and effectively. It has also always maintained concern that taxpayers' compliance burdens be reduced to the fullest extent compatible with state tax laws. The Presidential Working Group is currently offering promise of new intellectual input and help in furthering the purposes of the Commission. The prospects for success in the accomplishing of the purposes of the Commission continue to be encouraging.
EXECUTIVE DIRECTOR and ACTING GENERAL COUNSEL

Eugene F. Corrigan became the Commission’s first staff member in 1963, after resigning his position as chief counsel of the Illinois Department of Revenue’s Chicago office. His prior experience included three years as a Sears, Roebuck tax attorney and ten years with the Illinois Department of Revenue. During the mid-sixties, he was also a partner in the Chicago law firm of Stradford, Leffontant, Fisher & Corrigan. He is a graduate of Princeton University and of John Marshall Law School of Chicago. He offices at the Commission’s headquarters in Boulder, Colorado.

ASSISTANT CHIEF COUNSEL and DEPUTY DIRECTOR

Alan H. Friedman has fifteen years of legal experience, including positions as legal counsel with the U.S. Justice Department, the U.S. Senate, and the Colorado Attorney General’s office. As First Assistant Attorney General, he supervised the legal representation of Colorado’s Governor, Secretary of State, Treasurer and Department of Revenue. Immediately prior to joining the MTCA as Deputy Director and Assistant Chief Counsel he served as Deputy Director of the Colorado Department of Revenue.

COUNSEL

William D. Dexter had been a litigating attorney for some thirty-five years, the last eight of them as the MTCA’s General Counsel, when he retired on July 15, 1981. He had previously served as an assistant attorney general in both Michigan and Washington. His major contributions to state and local tax philosophy seemed to receive unit acceptance from the U.S. Supreme Court in the form of the Container decision which that Court issued two weeks before his retirement. That decision ratified the stance which he had long maintained on behalf of the states and the MTCA, while he did not participate in the actual argument of that case, his amicus brief in Container as well as his Petition for Rehearing on behalf of Idaho and New Mexico in the ASARCO/Weber case are widely regarded as having had a significant influence on the outcome of Container. Earlier, as a result of his participation in the 1980 Mobil case, the Supreme Court had adopted his argument that the unitary business principle was the key to the constitutional question there, laying the groundwork for this year’s Container decision. In 1978, he had won the U.S. Supreme Court case of MTCA v. U.S. Steel, which established the constitutional validity of the MTCA for coke and for
all. During his career, he had led or had participated in many other
important cases for the MTC and its member states in courts around
the land. Even after retirement, another victory came his way when,
on August 11, 1983, the Ninth District Court of Appeals ruled that
the MTC may require the production by U.S. Steel of books and
records necessary to complete an audit even though states
participating in the MTC audit have issued estimated assessments in
order to protect themselves against the expiration of statutes of
limitations. He will continue to remain active with the MTC in an of
Council capacity which will require a much lower time commitment
from him but which undoubtedly will result in no reduction in the
diligence with which he devotes himself to MTC and state tax
concerns.

AUDIT MANAGER

Eugene B. Fischer joined the Multistate Tax Commission in March,
1981. He is a graduate of the Baruch School of the City College of
New York and the Brooklyn Law School. A certified public accountant
and a member of the New York State Bar, he served as Director of
Taxes at North American Philips, Inc. for three years. Later, after
three years in private CPA practice, he rejoined the Philips
corporation family as chief tax officer of Polygram Corporation, a
position which he held for six years.
Multistate Tax Commission Officers*

Chairman          Kent Conrad (North Dakota)
Vice Chairman  Larry Looney (Idaho)
Treasurer         Vickie Fischer (New Mexico)

Executive Committee Members

Members           Bob Bullock (Texas)
                  Harley Duncan (Kansas)
                  Donna Kames (Nebraska)
                  Richard King (Missouri)

Ex-Officio        Robyn Godwin (Oregon)
                  Alan Barnes (Colorado)
                  Gerald Goldberg (California)

* The three officers are also members of the Executive Committee. Terms of the above officers and committee members end at the annual meeting in 1984. The ex-officio members of the Executive Committee are former Commission chairmen.
Committees

Audit Committee

California
Colorado
Kansas
Minnesota
North Dakota
Oregon
Texas

Robert Bonnici, Chairman
Frank Beckwith
Thomas Sheridan
Geneve Caulfield
Bob Kessel
George Weber
Larry Crawford

Uniformity Committee

New Mexico
Alaska
Arkansas
California
Colorado
Hawaii
Idaho
Kansas
Michigan
Minnesota
Missouri
Montana
Nebraska
North Dakota
Oregon
Utah
West Virginia

Manual Gallegos, Chairman
John Mintken
Everett Leath
Kendall Kinyon
Ted W. Middle
Tomitaru Ogai
Frank Medlin
Thomas Sheridan
Fred Lynch
Jerome Caulfield
Ed McIotzky
Jerry Forrer
James Masonbrink
Robert Kessel
George Weber
Donald Bosch
Jon E. Synder

Finance Committee

Colorado
Kansas
Texas

Alan Charnes, Chairman
Harley Duncan
Wade Anderson
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Tax Administrators
Associate Member States

The Commissioner has made provisions for associate membership as follows:

13. Associate Membership

Associate membership in the Commission may be granted in a majority vote of the Commissioners of the States which have not already been represented on the Commission, and through effective participation in and a consequential interest in the work of the Commission. The Commission will seek to form associate membership agreements with the states interested in participating in the activities of the Commission. Each state may be represented by one associate member.

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Executive Secretary of the Board of Equalization represents California in VCC fiscal years beginning in odd-numbered calendar years, and the Executive Director of the Franchise Tax Board represents California in VCC fiscal years beginning in even-numbered calendar years.

**VCC Commission 1980-1981**

***VCC Commission 1981-1982***

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We have examined the balance sheets of Fortissimo Tel. Co., dated as of June 30, 1982 and 1981, and the related statements of revenues and expenses, charges to fund deficits and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Fortissimo Tel. Co., dated as of June 30, 1982 and 1981, and the results of its operations, changes in fund balance, and changes in financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Rhode, Shriver & Associates
Certified Public Accountants

August 14, 1983
<table>
<thead>
<tr>
<th>ASSETS</th>
<th>'83</th>
<th>'82</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, including certificates of deposit of $200,000 in '83 and '82</td>
<td>$129,099</td>
<td>$119,694</td>
</tr>
<tr>
<td>Accounts receivable—members</td>
<td>15,308</td>
<td>20,183</td>
</tr>
<tr>
<td>Accounts receivable—other</td>
<td>17,496</td>
<td>1,371</td>
</tr>
<tr>
<td>Net investment in sales-type lease—current portion—note 2</td>
<td>---</td>
<td>5,354</td>
</tr>
<tr>
<td>Other current assets</td>
<td>42</td>
<td>467</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>$165,344</td>
<td>$147,107</td>
</tr>
<tr>
<td><strong>PROPERTY AND EQUIPMENT—notes 1 and 4</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office furniture and equipment</td>
<td>171,434</td>
<td>158,374</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>72,149</td>
<td>53,422</td>
</tr>
<tr>
<td><strong>TOTAL PROPERTY AND EQUIPMENT</strong></td>
<td>$99,285</td>
<td>$104,952</td>
</tr>
<tr>
<td><strong>OTHER ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expense account advances</td>
<td>4,302</td>
<td>2,560</td>
</tr>
<tr>
<td>Deposits</td>
<td>1,496</td>
<td>1,496</td>
</tr>
<tr>
<td>Unpaid and unamortized past service pension costs—note 3</td>
<td>12,129</td>
<td>8,539</td>
</tr>
<tr>
<td>Net investment in sales-type lease—non-current portion—note 2</td>
<td>---</td>
<td>24,580</td>
</tr>
<tr>
<td><strong>TOTAL OTHER ASSETS</strong></td>
<td>$35,274</td>
<td>$48,432</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$502,923</td>
<td>$507,399</td>
</tr>
<tr>
<td>Category</td>
<td>1993</td>
<td>1992</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$4,276</td>
<td>$4,574</td>
</tr>
<tr>
<td>Accrued vacation pay—Note 7</td>
<td>63,742</td>
<td>59,669</td>
</tr>
<tr>
<td>Payroll taxes payable</td>
<td>9,952</td>
<td>9,294</td>
</tr>
<tr>
<td>Assessments and sewer reimbursements</td>
<td>---</td>
<td>40,000</td>
</tr>
<tr>
<td>collected in advance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>5,952</td>
<td>31,248</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>96,502</td>
<td>94,044</td>
</tr>
<tr>
<td>LONG-TERM DEBT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations under capital leases—Note 2</td>
<td>---</td>
<td>52,334</td>
</tr>
<tr>
<td>Note payable—Note 4</td>
<td>35,712</td>
<td>4,877</td>
</tr>
<tr>
<td>Less: Current portion</td>
<td>15,723</td>
<td>39,045</td>
</tr>
<tr>
<td><strong>TOTAL LONG-TERM DEBT</strong></td>
<td>50,435</td>
<td>52,334</td>
</tr>
<tr>
<td>FUND BALANCE—Exhibit 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unappropriated fund balance</td>
<td>178,784</td>
<td>178,784</td>
</tr>
<tr>
<td><strong>TOTAL FUND BALANCE</strong></td>
<td>178,784</td>
<td>178,784</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND FUND BALANCE</strong></td>
<td>$302,287</td>
<td>$348,524</td>
</tr>
<tr>
<td>Description</td>
<td>1982</td>
<td>1983</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Fund Balance, beginning of year</td>
<td>$378,784</td>
<td>$34,919</td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>$38,110</td>
<td>$32,583</td>
</tr>
<tr>
<td>Fund Balance, end of year</td>
<td>$416,894</td>
<td>$371,734</td>
</tr>
</tbody>
</table>
## MULTISTATE TAX COMMISSION

### STATEMENTS OF REVENUE AND EXPENSES

For the years ended June 30, 1982 and 1981

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments</td>
<td>$1,179,374</td>
<td>$1,246,721</td>
</tr>
<tr>
<td>Interest</td>
<td>49,337</td>
<td>67,620</td>
</tr>
<tr>
<td>Other revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal administrative</td>
<td>23,842</td>
<td>14,850</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>350</td>
<td>490</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>1,252,561</td>
<td>1,328,861</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>7,300</td>
<td>7,622</td>
</tr>
<tr>
<td>Bonds and insurance</td>
<td>3,774</td>
<td>2,797</td>
</tr>
<tr>
<td>Consulting fees</td>
<td>38,320</td>
<td>9,409</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>28,790</td>
<td>17,724</td>
</tr>
<tr>
<td>Employee group insurance</td>
<td>45,672</td>
<td>33,749</td>
</tr>
<tr>
<td>Interest expense</td>
<td>1,495</td>
<td>3,973</td>
</tr>
<tr>
<td>Legal and legal support</td>
<td>42,054</td>
<td>20,537</td>
</tr>
<tr>
<td>Gain on sale of fixed assets</td>
<td>944</td>
<td>1,970</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>1,141</td>
<td>4,789</td>
</tr>
<tr>
<td>Office supplies</td>
<td>6,942</td>
<td>7,487</td>
</tr>
<tr>
<td>Pension plan and retirement provision</td>
<td>31,482</td>
<td>74,524</td>
</tr>
<tr>
<td>Postage</td>
<td>8,692</td>
<td>9,444</td>
</tr>
<tr>
<td>Printing and duplicating</td>
<td>7,024</td>
<td>7,584</td>
</tr>
<tr>
<td>Publications</td>
<td>1,787</td>
<td>7,117</td>
</tr>
<tr>
<td>Rent</td>
<td>7,548</td>
<td>50,887</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>4,990</td>
<td>2,530</td>
</tr>
<tr>
<td>Salaries</td>
<td>57,352</td>
<td>59,670</td>
</tr>
<tr>
<td>Telephone</td>
<td>21,353</td>
<td>25,684</td>
</tr>
<tr>
<td>Travel</td>
<td>57,311</td>
<td>47,206</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,773</td>
<td>4,818</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>1,271,877</td>
<td>1,274,232</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUE OVER EXPENSES</strong></td>
<td>$ 80,684</td>
<td>$ 54,628</td>
</tr>
</tbody>
</table>
### Exhibit 6

**MULTISTATE TAX COMMISSION**

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

For the years ended June 30, 1961 and 1962

<table>
<thead>
<tr>
<th></th>
<th>1962</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working Capital Provided By:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations:</td>
<td>$28,117</td>
<td>$23,855</td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>$28,117</td>
<td>$23,855</td>
</tr>
<tr>
<td>Add: Charges not requiring the use of working capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$17,274</td>
<td>$17,274</td>
</tr>
<tr>
<td>Net book value of property and equipment sold</td>
<td>$2,398</td>
<td>$2,398</td>
</tr>
<tr>
<td>Working Capital Provided by Operations</td>
<td>$43,734</td>
<td>$43,734</td>
</tr>
<tr>
<td>Decrease in net investment in sales-type lease</td>
<td>$24,882</td>
<td>$2,954</td>
</tr>
<tr>
<td><strong>TOTAL PROVIDED</strong></td>
<td>$19,852</td>
<td>$10,780</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1962</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working Capital Applied To:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>$29,629</td>
<td>$29,629</td>
</tr>
<tr>
<td>Decrease in long-term obligations</td>
<td>$12,947</td>
<td>$12,947</td>
</tr>
<tr>
<td>Increase in expense account advances</td>
<td>$12,120</td>
<td>$12,120</td>
</tr>
<tr>
<td>Increase in prepaid and unamortized lease services—pension costs</td>
<td>$3,217</td>
<td>$3,217</td>
</tr>
<tr>
<td><strong>TOTAL APPLIED</strong></td>
<td>$102,843</td>
<td>$102,843</td>
</tr>
</tbody>
</table>

**Increase in Working Capital**

- **1962:** $55,971
- **1961:** $74,171

### Changes in Working Capital Components

#### Increase (Decrease) in Current Assets:

- **Cash:** $11,505
- **Accounts receivable—members:** $1,920
- **Accounts receivable—other:** $4,114
- **Current portion of investment in sales-type lease:** $1,905
- **Other current assets:** $28,378

#### Increase (Decrease) in Current Liabilities:

- **Accounts payable:** $12,128
- **Accrued vacation pay:** $1,920
- **Payroll taxes payable:** $1,920
- **Assessments and audit reimbursements collected in advance:** $1,920
- **Current portion of long-term obligations:** $1,920

**Increase in Working Capital**

- **1962:** $55,971
- **1961:** $74,171
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Multistate Tax Commission was organized in 1967. It was established under the Multistate Tax Compact, which by its terms, became effective August 4, 1967. The basic objective of the "Compact" and, accordingly, the Commission is to provide solutions and additional facilities for dealing with state taxing problems related to multistate business.

Method of Accounting

The Commission follows the actual method of accounting whereby assessment revenue is recognized in the fiscal year of assessment. Contributions by states for specific purposes are recognized as income during the year of receipt. Other revenue is recognized as it is earned. Expenses are recognized as they are incurred.

Property and Equipment

All property and equipment is stated at cost and depreciated using the straight-line and accelerated methods over the estimated useful lives of the assets which range from 5 to 30 years.

Reclassification

Certain items on the financial statements as of June 30, 1982 have been reclassified to conform to classifications used at June 30, 1983. These reclassifications were made for comparative purposes only.

NOTE 2 - NET INVESTMENT IN SALES-TYPE LEASE

During the year ended June 30, 1981, the Commission sold property relating to a previously capitalized lease for computer hardware. This sublease was recorded in accordance with Financial Accounting Standard Board Statement No. 13 as a sales-type lease. The sublease was recorded as follows for the year ended June 30, 1981:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total minimum lease payments to be received</td>
<td>$41,573</td>
</tr>
<tr>
<td>Lease: Unearned income</td>
<td>$1,537</td>
</tr>
<tr>
<td>Net Investment in sales Type lease</td>
<td>$10,536</td>
</tr>
</tbody>
</table>

During the year ended June 30, 1981, the sublessee of the computer hardware informed the Commission that they would be in default of the sublease. As a result, title to the computer hardware reverted back to the Commission, and the property was sold at a net loss of $30.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1983

NOTE 1 - PENSION PLAN

The Commission has a defined benefit pension plan covering substantially
all of its employees. The total pension expense for the year was $82,482,
which includes amortization of prior service costs over 10 years. The
Commission's policy is to fund pension cost accrued. The actuarially com-
puted value of vested benefits as of June 30, 1983, is fully funded. The
accumulated plan benefits and plan net assets are presented below:

ACTUARIAL PRESENT VALUE OF ACCUMULATED
PLAN BENEFITS AT JUNE 30, 1983:

Vested $129,319
Nonvested 82,482
$211,791

MARKET VALUE OF NET ASSETS AVAILABLE
FOR BENEFITS AT JUNE 30, 1983
$216,162

The assumed rate of return used in determining the actuarial present value
of accumulated plan benefits was 6.5% compounded annually.

NOTE 4 - NOTES PAYABLE

Notes payable at June 30, 1983 were as follows:

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Current</th>
<th>Long-Term</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-1/2% instalment note, collateralized by related equipment, payable in monthly installments of $766.31 including interest, with final payment due May 1, 1988.</td>
<td>$5,982</td>
<td>$19,577</td>
<td>$25,559</td>
</tr>
</tbody>
</table>

NOTE 5 - COMMITMENTS

The Commission rents its primary office facilities in Boulder, Colorado,
and secondary office facilities in New York, Illinois and Washington
State, under lease agreements with terms expiring on various dates
through August 31, 1988. These leases provide for the following minimum
annual rentals exclusive of utility charges and certain escalation
charges:
NOTE 6 - COMMITMENTS (Continued)

<table>
<thead>
<tr>
<th>Fiscal Year Ended</th>
<th>Minimum Annual Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 10, 1984</td>
<td>3 64,592</td>
</tr>
<tr>
<td>June 10, 1985</td>
<td>19,112</td>
</tr>
<tr>
<td>June 10, 1986</td>
<td>50,376</td>
</tr>
<tr>
<td>June 10, 1987</td>
<td>44,836</td>
</tr>
<tr>
<td>June 10, 1988</td>
<td>28,100</td>
</tr>
<tr>
<td>Balance through August 31, 1988</td>
<td>5,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>718,128</td>
</tr>
</tbody>
</table>

The leases include certain escalation charges based on various factors including wage index, utility, operating and property tax increases from a base year.

NOTE 6 - AMENDED TAXES

In the opinion of legal counsel, the Commission is exempt from Federal income tax 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.

NOTE 7 - ACCRUED VACATION PAY

In accordance with Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences", employees' rights to receive compensation for future absences have been accrued for the year ended June 10, 1993 and 1982. The accrual at June 10, 1981 was understated by $23,100 which was included in results of operations for the year ended June 10, 1981.
Alabama(1)  Hawaii(2)  Minnesota(6)  Oklahoma(5)
Alaska     Idaho       Missouri(2)  Oregon
Arizona    Illinois    Montana(2)  Pennsylvania
Arkansas   Indiana(2)  Nebraska(2)  South Carolina
California Kansas     New Hampshire(7) Tennessee
Colorado(2) Kentucky    New Mexico       Utah(2)
Dist. of Columbia Maine        North Carolina  Virginia
Florida(3) Massachusetts(8) North Dakota  West Virginia(2)
Georgia(4)  Wisconsin(8)

Notes:
(1) Alabama’s corporate income tax statute is vague on how the state is to determine what portion of a corporation’s income is to be attributed to the state for tax purposes. On September 6, 1967, the Alabama Legislature enacted the Multistate Tax Compact, which includes UDITPA, subject to congressional enactment of a Multistate Tax Compact Consent Bill. On September 12, 1967, the Alabama Department of Revenue promulgated regulations which adopt the UDITPA provisions as the basis on which to determine the amount of a corporation’s income which is attributable to a state.
(2) This state adopted UDITPA by enacting the Multistate Tax Compact.
(3) Florida enacted the Multistate Tax Compact in 1969. When it enacted its corporate income tax in 1971, it deleted UDITPA from its statutes. Yet its corporate income tax statute is substantially in accord with UDITPA. Florida gives 50% weight to the sales factor.
(4) Georgia’s payroll and sales factors differ, but only slightly.
(5) Massachusetts is included as a UDITPA state because it closely follows the UDITPA apportionment formula. Massachusetts adopted the 3-factor formula in 1920 and UDITPA modified that formula. However, rather than source, UDITPA adopted destination for sales subject to the condition that the seller be subject to the jurisdiction of the destination state. In 1966, Massachusetts changed to destination basis, but subject to the current modification that no-nexus sales are Massachusetts sales if they are not sold by third-state based salesmen. Unlike UDITPA, all income, including intangible income, is put into the Massachusetts tax base with the sole exclusion of dividends received from corporations, but not trusts or DISOs, in which the receiving corporation owns more than 15% of the voting stock. Massachusetts gives 50% weight to the sales factor.
(6) Minnesota has adopted UDITPA but gives taxpayer option of using an alternative formula.
(7) New Hampshire is included here as a UDITPA state even though its property factor is somewhat different.
(8) Although Oklahoma and Wisconsin have not technically adopted UDITPA, their laws appear to be sufficiently close to enable them to be considered UDITPA states.
AGREEMENT ON EXCHANGE OF INFORMATION

[INCOME TAX]

In the interest of furthering the mutual interests of the undersigned states represented by the undersigned officials through benefits which can be derived from the exchange of information among said states, each of said officials does hereby enter into the following Agreement for the exchange of information with every other undersigned official. The undersigned hereby mutually agree to exchange information, to the full extent permitted by their respective laws, in accordance with the terms and limitations below:

1. For purposes of this Agreement, income tax means a tax imposed on or measured by net income, including any tax imposed on or measured by an amount arrived at by deducting expenses from gross income, one or more forms of which expenses are not specifically and directly related to particular transaction.

2. This Agreement shall be applicable with respect to:
   a. The inspection of income tax returns of any taxpayer; and
   b. The furnishing of an abstract of the return of income of any taxpayer; and
   c. The furnishing of any information concerning any items contained in any return of income of any taxpayer; and
   d. The furnishing of any information disclosed by the report of any investigation of the income or return of income of any taxpayer, exclusive of any information obtained through an agreement between any of the undersigned states and the Internal Revenue Service.

3. For purposes of this Agreement, taxpayer includes any individual, corporation, partnership or fiduciary subject to an income tax or required to file an income tax return.

4. This Agreement is not limited to a specific period of time or to returns, documents or information relating to any specific years or periods; and it will be considered to be in effect until revoked.

5. Additions and changes, including definitions, in the provisions of this Agreement, may be made by mutual consent of the proper officials of the undersigned states, and shall become an attachment to this Agreement.

6. No information obtained pursuant to this Agreement shall be disclosed to any person not authorized by the laws of the undersigned states.

7. The information obtained pursuant to this Agreement shall be used only for the purpose of administration of the income tax laws of the undersigned states.

8. This written Agreement shall not become effective between any two states until the authorized officials for both such states have signed it in the space provided below.
9. This written Agreement is not intended to revoke or supersede any other similar agreement that may have been previously entered into between any two or more of the states represented below.

10. The undersigned agree to inform each other of the current statutory provisions of their respective states concerning the confidentiality of the material exchanged and the penalties for unlawful disclosure thereof.

11. Any of the undersigned state officials may, at their discretion, refuse to furnish information disclosed in the report of any investigation while such investigation is still in progress or during such time as litigation is contemplated or in process, if the official of the state making the investigation beems it in the best interests of his state for such information to be withheld pending determination of litigation.

12. Each of the undersigned state officials hereby affirms that he is the proper official charged with the administration of the income tax laws of his state.

***

The above agreement has been executed by the following states under the information sharing authority granted by their statutes. The execution of the Agreement by these states constitutes the equivalent of 210 individual agreements.

Signatory States

Alaska     Idaho     Michigan     North Carolina
Arkansas   Illinois   Minnesota   North Dakota
California Indiana   Missouri    Oregon
Colorado   Kansas     Montana     Pennsylvania
Florida    Louisiana Nebraska    Utah
Hawaii

30
AGREEMENT ON EXCHANGE OF INFORMATION
(SALES AND USE TAX)

In the interest of furthering the mutual interests of the undersigned states represented by the undersigned officials through benefits which can be derived from the exchange of information among said states, each of said officials does hereby enter into the following Agreement for the exchange of information with every other undersigned official.

The undersigned hereby mutually agree to exchange information, to the full extent permitted by their respective laws, in accordance with the terms and limitations below:

1. For purposes of this Agreement, sales tax includes general excise and/or gross receipt taxes and means a tax imposed on a sale or exchange of personal property and/or services, as well as on gross receipts from trade or business; and use tax means a tax other than ad valorem tax, on the privilege of storing, using or consuming personal property and/or services.

2. This Agreement shall be applicable with respect to:
   a. The inspection of sales and use tax returns of any taxpayer; and
   b. The furnishing of an abstract or the exchange of computer information regarding the sales or use tax return of any taxpayer; and
   c. The furnishing of any information concerning any items contained in any sales or use tax return of any taxpayer; and
   d. The furnishing of any information disclosed by the report of any investigation of the sales or use tax return of any taxpayer.

3. For purposes of this Agreement, "taxpayer" includes any individual, corporation, partnership, organization, association, fiduciary, transmission or other entity, subject to payment or collection and remittance of sales or use tax or required to file a sales or use tax return.

4. This Agreement is not limited to a specific period of time or to returns, documents or information relating to any specific years or periods; and it will be considered to be in effect until revoked by one of the parties; however, the withdrawal of one party hereof shall not affect the Agreements among the remaining parties.

5. Additions and changes, including definitions, in the provisions of this Agreement, may be made by mutual consent of the proper officials of the undersigned states, and shall become an attachment to this Agreement.

6. No information obtained pursuant to this Agreement shall be disclosed to any person not authorized by the laws of the undersigned states.

7. The information obtained pursuant to this Agreement shall be used only for the purpose of administration and enforcement of the sales and use tax laws of the undersigned states.
9. This written Agreement shall not become effective between any two states until the authorized officials for both such states have signed it in the space provided below.

10. The undersigned agree to inform each other of the current statutory provisions of their respective states concerning the confidentiality of the material exchanged and the penalties for unlawful disclosure thereof.

11. Any of the undersigned state officials may, at their discretion, refuse to furnish information disclosed in the report of any investigation while such investigation is still in process or during such time as litigation is contemplated or in process, if the official of the state making the investigation deems it in the best interests of his state for such information to be withheld pending final determination of litigation.

12. Each of the undersigned state officials hereby affirms that he is the proper official charged with the administration of the sales and use tax laws of his state.

This Agreement may be executed in counterparts, all of which taken together shall be deemed one original Agreement.

***

The above agreement has been executed by the following states under the information sharing authority granted by their statutes. The execution of the Agreement by these states constitutes the equivalent of 274 individual agreements.

**Signatory States**

- Arkansas
- California
- Colorado
- Georgia
- Idaho
- Indiana
- Iowa
- Kansas
- Louisiana
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- North Dakota
- Pennsylvania
- South Dakota
- Tennessee
- Texas
- Utah
- Washington
- Wyoming
SALES AND USE TAX
JURISDICTION LIMITATION STATEMENT

The following is the Sales and Use Tax Jurisdiction Limitation Statement with which all states, to the best of our knowledge, comply:

Sales and Use Tax Jurisdiction Standard

A vendor is required to pay or collect and remit the tax imposed by this Act if within this state he directly or by any agent or other representatives:

1. Has or utilizes an office, distribution house, sales house, warehouse, service enterprise or other place of business; or

2. Maintains a stock of goods; or

3. Regularly solicits orders whether or not such orders are accepted in this state, unless the activity in this state consists solely of advertising or of solicitation by direct mail; or

4. Regularly engages in the delivery of property in this state other than by common carrier or U.S. mail; or

5. Regularly engages in any activity in connection with the leasing or servicing of property located within this state.

This state does not seek to impose use tax collection requirements on any retailer over whom the above standard does not confer jurisdiction in this state.
UNIFORM SALES & USE TAX CERTIFICATE
MULTI-JURISDICTION

Issued to: [Name of Business]
Address: [Address]

Certify that all sales in this State are made in compliance with the applicable sales and use tax laws of this State and in the manner prescribed by law.

City or State: [City or State]
State Registration No.: [State Registration No.]

I further certify that if any property is purchased or manufactured for resale or used to make products, it is subject to a sales or use tax. The tax is due to the person or entity to whom the property is sold or manufactured. This certificate shall be used to prove that the information is valid and is subject to the City or State.

Signature of person authorized to be purchased or manufactured.

Date: [Date]

[Signature]

Date: [Date]

[Signature]
TAX CERTIFICATE:

To obtain a property tax certificate in Ohio, the following requirements must be met:

1. The property must be located in the state of Ohio.
2. The property must be owned by a non-resident.
3. The property must be used for non-commercial purposes.

If all of these requirements are met, you may obtain a tax certificate by filling out the form and submitting it to the tax collector's office in the county where the property is located.

If you are entitled to a tax exemption, please complete the certificate and submit it to us at your earliest convenience. We will determine the tax due based on the market value of the property, as determined by our tax assessor.

For a listing of the following states, please refer to the certificate or statement.

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

Note: A tax certificate must be obtained for sales tax purposes. A seller must have a certificate from the state in which the property is located. Failure to obtain a certificate will result in sales tax penalties.

CAUTION: It is important to ensure that all facts are true and accurate. The certificate must be signed by the seller and notarized. Failure to do so may result in legal consequences.

Because of this certificate, the seller is not liable for any property taxes in the future. However, it is the responsibility of the seller to ensure that the certificate is up-to-date and accurate.
MULTISTATE TAX COMMISSION

CONSTRUCTION CONTRACTOR REGULATION

adopted July 10, 1980


The following special rules are established in respect to the apportionment of income of long-term construction contractors:

(1) **In General.** When a taxpayer elects to use the percentage of completion method of accounting, or the completed contract method of accounting for long-term contracts (construction contracts covering a period in excess of one year from the date of execution of the contract to the date on which the contract is finally completed and accepted), and has income from sources both within and without this state from a trade or business, the amount of business income derived from such long-term contracts from sources within this state shall be determined pursuant to this regulation. In such cases, the first step is to determine which portion of the taxpayer's income constitutes "business income" and which portion constitutes "nonbusiness income" under Article IV.1 and Reg. IV.1 thereafter. Nonbusiness income is directly allocated to specific states pursuant to the provisions of Article IV.6 to .9, inclusive. Business income is apportioned among the states in which the business is conducted pursuant to the property, payroll, and sales apportionment factors set forth in this regulation. The sum of (1) the items of nonbusiness income directly allocated to this state, plus (2) the amount of business income attributable to this state constitutes the amount of the taxpayer's entire net income which is subject to tax by this state.

(2) **Business and Nonbusiness Income.** For definitions, rules and examples for determining business and nonbusiness income see Reg. IV.1.
Methods of Accounting and Year of Inclusion. For general rules of accounting, definitions and methods of accounting for long-term construction contracts see each state adopting this Regulation should insert here reference to its laws and regulations relating in general to accounting methods of reporting income from long-term contracts. This Regulation assumes that the law of the adopting states permits the taxpayer to elect either the percentage of completion or completed contract method. If not, the Regulation will have to be modified to conform to an adopting state's accounting method for long-term construction contracts.

Apportionment of Business Income.

In General. Business income is apportioned to this state by a three-factor formula consisting of property, payroll and sales regardless of the method of accounting for long-term contracts elected by the taxpayer. The total of the property, payroll and sales percentages is divided by three to determine the apportionment percentage. The apportionment percentage is then applied to business income to determine the amount apportioned to this state.

Percentage of Completion Method. Under this method of accounting for long-term contracts, the amount to be included each year as business income from each contract, is the amount by which the gross contract price which corresponds to the percentage of the entire contract which has been completed during the income years exceeds all expenditures made during the income year in connection with the contract. In so doing, account must be taken of the material and supplies on hand at the beginning and end of the income year for use in each such contract.
Example:

A taxpayer using the percentage of completion method of accounting for long-term contracts, entered into a long-term contract to build a structure for $9,000,000. The contract allowed three years for completion, and as of the end of the second income year the taxpayer's books of account, kept on the accrual method, disclosed the following:

<table>
<thead>
<tr>
<th></th>
<th>Receipts</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of 1st income year</td>
<td>$2,500,000</td>
<td>$2,400,000</td>
</tr>
<tr>
<td>End of 2nd income year</td>
<td>$4,500,000</td>
<td>$4,100,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$7,000,000</td>
<td>$6,500,000</td>
</tr>
</tbody>
</table>

In computing the above expenditures, consideration was given to material and supplies on hand at the beginning and end of each income year.

It was estimated that the contract was 30% completed at the end of the first income year and 80% completed at the end of the second income year. The amount to be included as business income for the first income year is $3,000,000 (30% of $9,000,000 or $2,700,000 less expenditures of $2,400,000 equals $300,000). The amount to be included as business income for the second income year is $2,800,000 (50% of $9,000,000 or $4,500,000 less expenditures of $4,100,000 equals $400,000).

(iii) Completed Contract Method. Under this method of accounting business income derived from long-term contracts is reported for the income year in which the contract is finally completed and accepted. Therefore, a special computation is required to compute the amount of business
income attributable to this state from each completed contract (see subdivision (3) of this regulation). Thus, all receipts and expenditures applicable to such contracts whether complete or incomplete as of the end of the income year are excluded from business income derived from other sources, as for example, short-term contracts, interest, rents, royalties, etc., which is apportioned by the regular three-factor formula of property, payroll and sales.

(iv) Property Factor. In general the numerator and denominator of the property factor shall be determined as set forth in Article IV.10 to .12, inclusive, and Reg. IV.10 to .12, inclusive. However, the following special rules are also applicable:

(A) The average value of the taxpayer's cost (including materials and labor) of construction in progress, to the extent such costs exceed progress billings (accrued or received depending on whether the taxpayer is on the accrual or cash basis for keeping its accounts) shall be included in the denominator of the property factor. The value of any such construction costs attributable to construction projects in this state shall be included in the numerator of the property factor.

Example 1:
Taxpayer commenced a long-term construction project in this state as of the beginning of a given year. By the end of its second income year its equity in the costs of construction to be reflected in the numerator and denominator of its property factor for such year is computed as follows:

...
<table>
<thead>
<tr>
<th></th>
<th>1st Year</th>
<th>2nd Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction Costs</strong></td>
<td>0</td>
<td>$21,000,000</td>
</tr>
<tr>
<td><strong>Progress Billings</strong></td>
<td></td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Balance 12/31</strong></td>
<td>$300,000</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

**Construction Costs - Total from beginning of project:**

$21,000,000

**Progress Billings - Total from beginning of project:**

$600,000

**Balance 12/31**

$1,000,000

**Balance beginning of Year**

$400,000

**Total**

$21,000,000

**Average (1/2) - Value used is property factor**

$1,750,000

**Note:** It may be necessary to use monthly averages if yearly averages do not properly reflect the average value of the taxpayer’s equity; see Article IV 12 and Reg. IV 12.

**Example 2:**

Same facts as in example 1, except that progress billings exceeded construction costs. The value for the taxpayer’s equity in the construction project is shown in the property factor.
(B) Rent paid for the use of equipment directly attributable to a particular construction project is included in the property factor at eight times the net annual rental rate even though such rental expense may be capitalized into the cost of construction.

(C) The property factor is computed in the same manner for all long-term contract methods of accounting and is computed for each income year even though under the completed contract method of accounting, business income is computed separately (see paragraph 3).

(v) Payroll Factor. In general, the numerator and denominator of the payroll factor shall be determined as set forth in Article IV.13 and 14a and Reg. IV.13 and 14. However, the following special rules are also applicable:

(A) Compensation paid employees which is attributable to a particular construction project are included in the payroll factor even though capitalized into the cost of construction.

(B) Compensation paid employees who in the aggregate perform most of their services in a state to which their employer does not report them for unemployment tax purposes, shall nevertheless be attributed to the state where the services are performed.

Example:

A taxpayer engaged in a long-term contract in state X sends several key employees to that state to supervise the project. The taxpayer, for unemployment tax purposes reports these employees to state Y where the main office is maintained and
where the employees reside. For payroll factor purposes and in accordance with Article IV.14 and Reg. IV.14 thereunder, the compensation is assigned to the numerator of state X.

(C) The payroll factor is computed in the same manner for all long-term contract methods of accounting and is computed for each income year even though under the completed contract method of accounting, business income is computed separately (see paragraph 5).

(vi) Sales Factor. In general the numerator and denominator of the sales factor shall be determined as set forth in Article IV.15 - .17, inclusive, and Reg. IV.15 - .7, inclusive. However, the following special rules are also applicable:

(A) Gross receipts derived from the performance of a contract are attributable to this state if the construction project is located in this state. If the construction project is located partly within and partly without this state, the gross receipts attributable to this state are based upon the ratio which construction costs for the project in this state incurred during the income year bears to the total of construction costs for the entire project during the income year or any other method, such as engineering cost estimates, which will provide a reasonable apportionment.

Example 1:

A construction project was undertaken in this state by a calendar year taxpayer which had elected one of the long-term contract methods of accounting. The following gross receipts (progress billings) were derived from the contract during the three income years that contract was in progress.
<table>
<thead>
<tr>
<th>Gross Receipts</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,900,000</td>
<td>$4,000,000</td>
<td>$7,000,000</td>
</tr>
</tbody>
</table>

The gross receipts to be reflected in both the numerator and denominator of the sales factor for each of the three years are the amounts shown.

**Example 1:**
A taxpayer contracts to build a dam on a river at a point which lies half within this state and half within state X. During the taxpayer’s first income year construction costs in this state were $2,000,000. Total construction costs for the project during the income year were $3,000,000. Gross receipts (progress billings) for the year were $2,400,000. Accordingly, gross receipts of $1,400,000 (\( \frac{12,000,000}{3,000,000} = 56 \frac{2}{3}\% \times 2,400,000 \)) are included in the numerator of the sales factor.

**(8) If the percentage of completion method is used, the sales factor includes only that portion of the gross contract price which corresponds to the percentage of the entire contract which was completed during the income year.**

**Example:**
A taxpayer which had elected the percentage of completion method of accounting entered into a long-term construction contract. At the end of its current income year (the second since starting the project) it estimated that the project was 30% completed. The bid price for the project was $5,000,000 and
it had received $2,500,000 from progress billings as of the end of its current income year. The amount of gross receipts to be included in the sales factor for the current income year is $2,700,000 (30% of $9,000,000), regardless of whether the taxpayer uses the accrual method or the cash method of accounting for receipts and disbursements.

(C) If the completed contract method of accounting is used, the sales factor includes the portion of the gross receipts (progress billings) received or accrued, whichever is applicable, during the income year attributable to each contract.

Example 1:
A taxpayer which had elected the completed contract method of accounting entered into a long-term construction contract. By the end of its current income year (the second since starting the project) it had billed, and accrued on its books a total of $5,000,000 of which $2,000,000 had accrued in the first year the contract was undertaken, and $3,000,000 had accrued in the current (second) year. The amount of gross receipts to be included in the sales factor for the current income year is $3,000,000.

Example 2:
Same facts as in example 1 except the taxpayer keeps its books on the cash basis, and as of the end of its current income year had received only $2,500,000 of the $3,000,000 billed during the current year. The amount of gross receipts
to be included in the sales factor for the current income year
is $2,500,000.

(D) The sales factor, except as noted above in subparagraphs
(B) and (C), is computed in the same manner, regardless of which long-term
method of accounting the taxpayer has elected, and is computed for each income
year even though under the completed contract method of accounting, business
income is computed separately.

(vii) Apportionment Percentage. The total of the property, payroll
and sales percentages is divided by three to determine the apportionment per-
centage. The apportionment percentage is then applied to business income to
establish the amount apportioned to this state.

(5) Completed Contract Method - Special Computation. The
completed contract method of accounting requires that the reporting of income
(or loss) be deferred until the year the construction project is completed or
accepted. Accordingly, a separate computation is made for each such contract
completed during the income year regardless of whether the project is
located within or without this state, in order to determine the amount of
income which is attributable to sources within this state. The amount of
income from each contract completed during the income year apportioned
to this state, plus other business income apportioned to this state by the
regular three-factor formula such as interest income, rents, royalties,
income from short-term contracts, etc., plus all nonbusiness income allocated
to this state is the measure of tax for the income year.

The amount of income (or loss) from each contract which is derived
from sources within this state using the completed contract method of ac-


counting is computed as follows:

(i) In the income year the contract is completed the income (or loss) therefrom is determined.

(ii) The income (or loss) determined at "(i)" is apportioned to this state by the following method:

(A) A fraction is determined for each year the contract was in progress. The numerator is the amount of construction costs paid or accrued each year the contract was in progress and the denominator is the total of all such construction costs for the project. (B) Each percentage determined in "(A)" is multiplied by the apportionment formula percentage for that particular year as determined in subdivision (ii)(vii) of this regulation. (C) The percentages determined at "(B)" for each year the contract was in progress are totaled. The amount of total income (or loss) from the contract determined at "(ii)" is multiplied by the total percentage. The resulting income (or loss) is the amount of business income from such contract derived from sources within this state.

Example 1:

A taxpayer using the completed contract method of accounting for long-term contracts is engaged in three long-term contracts; Contract L in this state, Contract M in state X and Contract N in state Y. In addition, it has other business income (less expenses) during the income year 1972 from interest, rents and short-term contracts amounting to $500,000, and nonbusiness income allocable to this state of $8,000. During 1972 it completed Contract M in state X at a profit of $900,000. Contracts L and
X in this state and state Y, respectively, were not completed during the income year. The apportionment percentages of the taxpayer as determined in subdivision (a) (iv) of this regulation and the percentages of contract costs as determined in subparagrapgh (iii) above for each year Contract M in state X was in progress are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentages</td>
<td>30%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Percentages of construction costs of Contract M each year to total construction costs (100%)</td>
<td>20%</td>
<td>50%</td>
<td>30%</td>
</tr>
</tbody>
</table>

The corporation's net income subject to tax in this state for 1972 is computed as follows:

- **Business Income**: $350,000
- **Apportion 20% to this state**: $70,000
- **Add: Income from Contract M**: $320,000
- **Total business income derived from sources within this state**: $390,000
- **Add: Nonbusiness income allocated to this state**: $3,000
- **Net income subject to tax**: $463,000

*Income from Contract M apportioned to this state:*

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentage</td>
<td>20%</td>
<td>20%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Percent of Construction Costs</td>
<td>20%</td>
<td>50%</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td>Product</td>
<td>6,000</td>
<td>12,000</td>
<td>12,000</td>
<td>28%</td>
</tr>
</tbody>
</table>

28% of $200,000 = $56,000.
Example 2:
Same facts as in example 1 except that Contract L was started in 1972 in this state, the first year the taxpayer was subject to tax in this state. Contract L in this state and Contract N in state Y are incomplete in 1972.

The corporation's net income subject to tax in this state for 1972 is computed as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business income</td>
<td>$500,000</td>
</tr>
<tr>
<td>Apportion 40% to this state</td>
<td>$200,000</td>
</tr>
<tr>
<td>Add: Income from Contract N *</td>
<td>$108,000</td>
</tr>
<tr>
<td>Total business income derived from sources within this state</td>
<td>$716,000</td>
</tr>
<tr>
<td>Add: Nonbusiness income allocated to this state</td>
<td>$8,000</td>
</tr>
<tr>
<td>Net income subject to tax</td>
<td>$724,000</td>
</tr>
</tbody>
</table>

*Income from Contract N apportioned to this state:

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentage</td>
<td>0</td>
<td>0</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Percent of Construction Costs</td>
<td>20%</td>
<td>50%</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td>Product</td>
<td>0</td>
<td>0</td>
<td>12.0%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

*12% of $500,000 = $108,000

Note: Only 12% is used to determine the income derived from sources within this state since the corporation was not subject to tax in this state prior to 1972.
Example 3:

Same facts as in example 1 except that the figures relate to Contract L in this state and 1972 is the first year the corporation was taxable in another state (see Article IV, 2 and 3 and Reg. IV. 2. (b) (1) and 3. Contracts M and N in states X and Y were started in 1972 and are incomplete.

The corporation's net income subject to tax in this state for 1972 is computed as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business income</td>
<td>$500,000</td>
</tr>
<tr>
<td>Apportion 40% to this state</td>
<td>$200,000</td>
</tr>
<tr>
<td>Add: Income from Contract L *</td>
<td>$738,000</td>
</tr>
<tr>
<td>Total business income derived from sources within this state</td>
<td>$938,000</td>
</tr>
<tr>
<td>Add: Nonbusiness income allocated to this state</td>
<td>$8,000</td>
</tr>
<tr>
<td>Net income subject to tax</td>
<td>$946,000</td>
</tr>
</tbody>
</table>

*Income from Contract L apportioned to this state:

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appportionment percentage</td>
<td>100%</td>
<td>100%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Percentage of Construction Costs</td>
<td>20%</td>
<td>50%</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td>Product</td>
<td>20%</td>
<td>50%</td>
<td>12%</td>
<td>82%</td>
</tr>
</tbody>
</table>

82% of $900,000 = $738,000
(6) Computation for Year of Withdrawal, Dissolution or Cessation of Business - Completed Contract Method. Use of the completed contract method of accounting for long-term contracts requires that income derived from sources within this state from incomplete contracts in progress outside this state on the date of withdrawal, dissolution or cessation of business in this state be included in the measure of tax for the taxable year during which the corporation withdraws, dissolves or ceases doing business in this state.

The amount of income (or loss) from each such contract to be apportioned to this state by the apportionment method set forth in subparagraph (5)(ii) of this regulation shall be determined as if the percentage of completion method of accounting were used for all such contracts on the date of withdrawal, dissolution or cessation of business. The amount of business income (or loss) for each such contract shall be the amount by which the gross contract price from each such contract which corresponds to the percentage of the entire contract which has been completed from the commencement thereof to the date of withdrawal, dissolution or cessation of business exceeds all expenditures made during such period in connection with each such contract. In so doing account must be taken of the material and supplies on hand at the beginning and end of the income year for use in each such contract.

Example:

A construction contractor qualified to do business in this state had elected the completed contract method of accounting for long-term contracts. It was engaged in two long-term contracts. Contract L in this state was started in 1971 and completed at a profit of $900,000 on 12/16/73. The taxpayer
withdrew on 12/31/72. Contract M in state X was started in 1972 and was incomplete on 12/31/73. The apportionment percentages of the taxpayer as determined at subdivision (a) of this regulation, and percentages of construction costs are determined in subdivision (5)(ii) of this regulation for each year. Contract M in state X was in progress as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1971</th>
<th>1972</th>
<th>1973</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentage</td>
<td>30%</td>
<td>20%</td>
<td>40%</td>
<td></td>
</tr>
</tbody>
</table>

Percentages of Construction Costs:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract L, this state</td>
<td>20%</td>
<td>30%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Contract M, state X</td>
<td>0</td>
<td>10%</td>
<td>25%</td>
<td>35%</td>
</tr>
</tbody>
</table>

The corporation had other business income (net of expenses) of $500,000 during 1972 and $100,000 during 1973. The gross contract price of Contract M (state X) was $1,000,000 and it was estimated to be 35% completed on 12/31/73. Total expenditures to date for Contract M (state X) were $500,000 for the period ended 12/31/73.

The measure of tax for the taxable year ended 12/31/73 is computed as follows:
### Taxable Year 1973

<table>
<thead>
<tr>
<th>Business income</th>
<th>$500,000</th>
<th>$300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentage to this state</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Amount apportioned to this state</td>
<td>$100,000</td>
<td>$120,000</td>
</tr>
</tbody>
</table>

Add: Income from contracts:

- **L (this state)**: $252,000
- **M (state X)**: $5,000

Total business income derived from sources within this state: $378,000

**Income from Contract L Apportioned to this state:**

<table>
<thead>
<tr>
<th>1971</th>
<th>1972</th>
<th>1973</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentages</td>
<td>30%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Percentage of construction costs</td>
<td>20%</td>
<td>50%</td>
<td>30%</td>
</tr>
<tr>
<td>Product</td>
<td>6.0%</td>
<td>10.0%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

28% of $500,000 = $252,000.

**Income from Contract M Apportioned to this state:**

<table>
<thead>
<tr>
<th>1971</th>
<th>1972</th>
<th>1973</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment percentages</td>
<td>0</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Percentage of Construction Costs</td>
<td>0</td>
<td>10%</td>
<td>25%</td>
</tr>
<tr>
<td>Product</td>
<td>0</td>
<td>2.0%</td>
<td>10%</td>
</tr>
</tbody>
</table>

***12.0% of $50,000 = $6,000.***
### Computation of apportionable income from Contract M based on percentage of completion method:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contract Price</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Estimated to be 75% completed</td>
<td>$350,000</td>
</tr>
<tr>
<td>Less:    total expenditures to date</td>
<td>$300,000</td>
</tr>
<tr>
<td>Apportionable income</td>
<td>$50,000</td>
</tr>
</tbody>
</table>
MULTISTATE TAX COMMISSION

RAILROAD REGULATION

adopted July 16, 1981

Reg. IV.19. 6. Special Rules: Railroads. The following special rules are established in respect to railroads:

(1) In General. Where a railroad has income from sources both within and without this state, the amount of business income from sources within this state shall be determined pursuant to this regulation. In such cases, the first step is to determine what portion of the railroad’s income constitutes “business” income and which portion constitutes “nontaxable” income under Article IV.1 and Regulation IV.1 thereunder. Nontaxable income is directly allocable to specific states pursuant to the provisions of Article IV.5 to 4.8, inclusive. Business income is apportioned among the states in which the business is conducted pursuant to the property, payroll and sales apportionment factors set forth in this regulation. The sum of (1) the items of nontaxable income directly allocated to this state, plus (2) the amount of business income attributable to this state constitutes the amount of the taxpayer’s entire net income which is subject to tax by this state.

(2) Business and Nontaxable Income. For definitions, rules and examples for determining business and nontaxable income, see Reg. IV.1.
3. Appointment of Business Income.

(1) In General. The property factor shall be determined in accordance with Reg. 77.11–12, inclusive, the payroll factor in accordance with Reg. 77.12–13, and the sales factor in accordance with Reg. 77.14–17, inclusive, except as modified in this Regulation.

(2) The Property Factor.

A. Property Valuation. Dened property shall be valued at its original cost and property rented from others shall be valued at eight times the net annual rental rate in accordance with Article 77.11 and Reg. 77.12. Railroad cars owned and operated by other railroads and temporarily used by the taxpayer in its business and for which a per mile or mileage charge is made are not included in the property factor as rented property. Railroad cars owned and operated by the taxpayer and temporarily used by other railroads in their business and for which a per mile charge is made by the taxpayer are included in the property factor of the taxpayer.

B. General Definitions. The following definitions are applicable to the numerator and denominator of the property factor:

1. "Original cost" is deemed to be the basis of the property for Federal income tax purposes (prior to any Federal income tax adjustments except for subsequent partial additions, improvements thereto or partial dispositions): "W", if the property has no such basis, the valuation of such property for Interstate Commerce Commission purposes. If the original cost of property is uncertain under the foregoing valuation standards, the property is included in the property factor at its fair market value as of the date of acquisition by the taxpayer (Reg. 77.11–13).
1. "Rent" does not include the per item and mileage charges paid by the taxpayer for the temporary use of railroad cars owned or operated by another railroad.

2. The "value" of owned real and tangible personal property shall mean its original cost. (See Article IV,11 and Reg. IV,11(a)).

3. "Average value" of property means the amount determined by averaging the values at the beginning and ending of the income tax year, but the (insert here the appropriate title of the administrative agency) may require the averaging of monthly values during the income year or such averaging as necessary to effect properly the average value of the railroad's property. (See Article IV,11 and Reg. IV,11(b)).

4. The "value" of rented real and tangible personal property means the product of eight (8) times the net annual rental rate. (See Art. IV,11 and Reg. IV,11(b)).

5. "Net annual rental rate" means the annual rental rate paid by the taxpayer less any annual rental rate received by the taxpayer from subrentals.

6. "Property used during the income year" includes property which is available for use in the taxpayer's trade or business during the income year.

7. A "locomotive-mile" is the movement of a locomotive (a self-propelled unit of equipment designed solely for moving other equipment) a distance of one mile under its own power.

8. A "car-mile" is a movement of a unit of car equipment a distance of one mile.
The denominator of the property factor shall be the average value of all of the taxpayer’s real and tangible personal property owned or rented and used during the income year. The numerator of the property factor shall be the average value of the taxpayer’s real and tangible personal property owned or rented and used in this state during the income year.

In determining the numerator of the property factor, all property except mobile or movable property such as passenger cars, freight cars, locomotives and freight containers which are located within and without this state during the income year shall be included in the numerator of the property factor in accordance with Article 77.13-24, inclusive, and Regulation 77.13-25, inclusive.

Mobile or movable property such as passenger cars, freight cars, locomotives and freight containers which are located within and without this state during the income year shall be included in the numerator of the property factor in the ratio which "Locomotives and "Passenger cars and "Freight cars, locomotives and "Freight cars and "Locomotives, respectively, bear to the total everywhere.

iii. The Payroll Factor. The numerator of the payroll factor is the total compensation paid everywhere by the taxpayer during the income year for the production of business income. (See Article 77.13-14, and Reg. 77.13-14). The numerator of the payroll factor is the total amount paid in this state during the income year by the taxpayer for compensation. With respect to all personal except seamen and marines performing services on interstate trains, compensation paid to such employees shall be included in the numerator as provided in Article 77.13-14 and Reg. 77.13-14.
With respect to engineers and trainmen performing services on interstate trains, compensation paid to such employees shall be included in the numerator of the payroll factor in the ratio with which their services performed in this state bear to their services performed everywhere. Compensation for services performed in this state shall be deemed to be the compensation reported or required to be reported by such employees for determination of their income tax liability to this state.

iv. The Sales (Revenue) Factor.

A. In General. All revenue derived from transactions and activities in the regular course of the trade or business of the taxpayer which produces business income, except per diem and mileage charges which are collected by the taxpayer, is included in the denominator of the revenue factor. (See Art. 77.1. and Reg. 77.1.)

The numerator of the revenue factor is the total revenue of the taxpayer in this state during the income year. The total revenue of the taxpayer in this state during the income year, other than revenue from hauling freight, passengers, mail and express, shall be attributable to this state in accordance with Article 77.1.5. and Regulation 77.1.5. .

B. Numerator of Sales (Revenue) Factor From Freight, Mail and Express. The total revenue of the taxpayer in this state during the income year for the numerator of the revenue factor from hauling freight, mail and express shall be attributable to this state as follows:

1. All receipts from shipments which both originate and terminate within this state; and
2. That portion of the receipts from each movement or shipment passing through, into, or out of this state is determined by the ratio which the miles traveled by such movement or shipment in this state bears to the total miles traveled by such movement or shipment from point of origin to destination.

3. Numerator of Sales (Revenue) Factor from Passengers.
The numerator of the sales (revenue) factor shall include:

1. All receipts from the transportation of passengers (including mail and express handled in passenger service) which both originate and terminate within this state; and

2. That portion of the receipts from the transportation of interstate passengers (including mail and express handled in passenger service) determined by the ratio which revenue passenger miles in this state bear to the total everywhere.
MULTISTATE TAX COMMISSION
AIRLINE REGULATION

adopted July 14, 1963

Reg. IV. 18.(e) Special Rules: Airlines. The following special rules are established with respect to airlines:

(1) In general. Where an airline has income from sources both within and without this state, the amount of business income from sources within this state shall be determined pursuant to IV. of the Multistate Tax Commission except as modified by this regulation.

(2) Apportionment of Business Income.

(1) General Definitions. The following definitions are applicable to the terms used in the apportionment factor descriptions.

A. "Value" of owned real and tangible personal property shall mean its original cost. (See Article IV.11. and Regulation IV.11.1(a).)

B. "Cost of aircraft by type" means the average original cost or value of aircraft by type which are ready for flight.

C. "Original cost" means the initial federal tax basis of the property plus the value of capital improvements to such property, except that, for this purpose, it shall be assumed that Safe Harbor Leases are not true leases and do not affect the original initial federal tax basis of the property. (See Regulation IV.11.1(a).)
D. "Average value" of property means the amount determined by averaging the values at the beginning and ending of the income year, but the (insert here the appropriate title of the administrative agency) may require the averaging of monthly values during the income year if such averaging is necessary to reflect properly the average value of the airline's property. (See Article IV.11. and Regulation IV.12.)

E. The "value" of rental real and tangible personal property means the product of eight (8) times the net annual rental rate. (See Article IV.11. and Regulation IV.11(b).)

F. "Net annual rental rate" means the annual rental rate paid by the taxpayer.

G. "Property used during the income year" includes property which is available for use in the taxpayer's trade or business during the income year.

H. "Aircraft ready for flight" means aircraft owned or acquired through rental or lease (but not interstake) which are in the possession of the taxpayer and are available for service on the taxpayer routes.

I. "Revenue service" means the use of aircraft ready for flight for the production of revenue.
J. "Transportation revenue" means revenue earned by transporting passengers, freight and mail as well as revenue earned from liquor sales, pet crate rentals, etc.

K. "Departures" means for purposes of these regulations all takeoffs, whether they be regularly scheduled or charter flights, that occur during revenue service.

11. Property Factor

A. Property valuation. Owned aircraft shall be valued at its original cost and rented aircraft shall be valued at eight (8) times the net annual rental rate in accordance with Article IV.11. and Regulation IV.11.

The use of the taxpayer's owned or rented aircraft in an interchange program with another air carrier will not constitute a rental of such aircraft by the airline to the other participating airline. Such aircraft shall be accounted for in the property factor of the owner. Parts and other expendables, including parts for use in contract overhaul work, will be valued at cost.

B. The denominator and numerator of the property factor. The denominator of the property factor shall be the average value of all of the taxpayer's real and tangible personal property owned or rented and used during the income year. The numerator of the property factor shall be the average value of the taxpayer's real and tangible personal property owned or rented and used in this state during the income year.
In determining the numerator of the property factor, all property except aircraft ready for flight shall be included in the numerator of the property factor in accordance with Article IV.10-.12, inclusive. Aircraft ready for flight shall be included in the numerator of the property factor in the ratio calculated as follows:

Departures of aircraft from locations in this state weighted as to the cost and value of aircraft by type compared to total departures similarly weighted.

(III) The Payroll Factor.

The denominator of the payroll factor is the total compensation paid everywhere by the taxpayer during the income year. (See Article IV.13-.14.) The numerator of the payroll factor is the total amount paid in this state during the income year by the taxpayer for compensation.

With respect to non-flight personnel, compensation paid to such employees shall be included in the numerator as provided in Article IV.13-.14. With respect to flight personnel (the air crew aboard an aircraft assisting in the operations of the aircraft or the welfare of passengers while in the air), compensation paid to such employees shall be included in the ratio that departures of aircraft from locations in this state, weighted as to the cost and value of aircraft by type compared to total departures similarly weighted, multiplied by the total flight personnel compensation.
(4) Sales (Transportation Revenue). Paragraph.
The transportation revenue derived from
transactions and activities in the regular course of the
trade or business of the taxpayer and miscellaneous sales of
merchandise, etc., are included in the denominator of the
revenue factor. (See Article IV.1. and Regulation IV.1.)
Passive income items such as interest, rental income,
dividends, etc., will not be included in the denominator nor
will the proceeds or net gains or losses from the sale of
aircraft be included. The numerator of the revenue factor
is the total revenue of the taxpayer in this state during
the income year. The total revenue of the taxpayer in this
state during the income year is the result of the following
calculation:

The ratio of departures of aircraft in this state
weighted as to the cost and value of aircraft by type, as
compared to total departures similarly weighted multiplied
by the total transportation revenue. The product of this
calculation is to be added to any non-flight revenues
directly attributable to this state.

(3) Records. The taxpayer must maintain the records
necessary to arrive at departures by type of aircraft as
used in these regulations. Such records are to be subject
to review by the respective state taxing authorities or
their agents.