Twelfth
Annual Report

For the fiscal year of July 1, 1978-June 30, 1979
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Purpose of the Multistate Tax Commission:

To bring even further uniformity and compatibility to 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.
June 1, 1980

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

I respectfully submit to you the twelfth annual report of the Multistate Tax Commission. This report covers the fiscal year beginning July 1, 1978 and ending June 30, 1979.

Respectfully submitted,

[Signature]

Eugene F. Corrigan
Executive Director
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The MTC in Perspective

At the same time, the tax administrators realized that certain aspects of interstate taxation were causing problems for multi-state taxpayers; and that the states should address those problems. Foremost among their concerns were the problems created by non-uniformity. The diversity in administrative practices among the states made it difficult for taxpayers to comply well with state requirements. So did internal variation in similar state tax statutes, especially corporate income tax statutes and sales and use tax statutes. Taxpayers worried that they might end up paying too much tax among the states, compared to their competition. Tax administrators worried that they might be paying too little. Neither had any objective standard by which to measure overall quality of compliance.

Congress had sought to address the subject during the early sixties. A House sub-committee, The Willis Committee, had gathered data, had conducted hearings and had developed recommendations, all of which it published in a massive 8-volume report. H.R. 11798 was a modified result of those recommendations. Tax administrators and business representatives both found fault with various aspects of the bill. As a consequence, it never became law. But the Committee’s efforts had managed to focus attention on problem areas; and the report

Creation of The Commission

The conception of the Commission occurred early in 1966 in Chicago. A group of state tax administrators met there under the aegis of the National Association of Tax Administrators. The purpose was to devise a strategy for defeating federal legislation which was then threatening to pass. The main concern was directed at H.R. 11798, known as the Willis Bill. The effect of that bill, if passed, was perceived by the tax administrators as interfering with the ability of the states to cope with the increasingly difficult task of administering their taxes with respect to interstate business.

"The conception of the Commission occurred early in 1966 . . ."
did an excellent job of analyzing the problems.

At the 1966 Chicago meeting, the tax administrators decided that an attack on the problems at the state level was necessary if federal legislation was to be forestalled. Many of them believed that problems created by diversity could best be resolved by reducing the diversity. This they proposed to accomplish through a Compact. The Compact would be a uniform law to which its member states would adhere. It would afford interstate taxpayers the opportunity to opt for uniformity among the member states. At the same time, the states sought to enhance their own ability to cope with non-uniform practices of taxpayers. The vehicle for the first was to be UDITPA (Uniform Division of Income for Tax Purposes Act), uniformly interpreted through regulations. The vehicle for the second was to be an interstate audit capability. The final draft of the Compact at the end of 1966 provided for both.

The Compact became law among its first seven member states on August 4, 1967. Within a few months, several additional states had joined. But its agency, the Multistate Tax Commission, did not become a reality until early 1969 when the first staffing took place.

Meanwhile, back in Washington, the House of Representatives has passed an H.R. position to advocate something in the way of constructive federal legislation as an alternative to the H.R. 11798 type which continued to threaten. The Commission's leadership conceived of a joint state-business committee as the best means by which to develop such an alternative as a viable approach. The result was the Ad Hoc Committee. Formed in early 1969, it consisted of eight state tax administration members and eight corporate tax representatives. The group met several times during the following months and developed a proposal called the Ad Hoc Bill. It was ultimately introduced by Senator Magnuson in 1970 as S. 3333. Thirty-two additional senators co-sponsored it. But neither the business community nor the states would support the bill. Indeed, three of the Ad Hoc Committee's state members filed a strong minority report against the Ad Hoc proposal.

A group of state representatives then proceeded to amend the Ad Hoc bill to respond to the objections voiced in the minority report. The result became known as The Plan. At a January, 1971 meeting of the Multistate Tax Commission, widely attended by both state and corporate tax personnel, an attempt was made to elicit broad support from the states for The Plan. There was optimism that this could be accomplished because the changes had shifted the thrust of the proposal substantially in favor of the

"The Compact became law among its first seven member states on August 4, 1967."

11798 type bill once; and would do so again in 1969. The promise of states' efforts through the Compact became the major basis for successful opposition to similar Senate action.

Ad Hoc Effort

During its first two years, the eyes of the Commission were directed squarely at the possibility of federal legislation. There prevailed a conviction that such legislation was likely and that the states should be in a states. Yet the meeting had hardly opened when dissension surfaced; and the effort failed. The states could not agree among themselves except on the point that the federal government should stay out of their bailiwick. Even business representatives who opposed the Plan had looked to the meeting as evidence of the ability of the states to reach some consensus on a compromise position; but they lost hope of any constructive result when the states could not agree on something which the businessmen

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believed to be tilted rather heavily in favor of the states.

**Regulations**

Meanwhile, the Commission had been working on regulations which would interpret UDITPA. This Model Act, which had been codified in 1957, represented what had become the most common approach to the attribution of corporate income among the states on a geographical basis for tax purposes. It differentiated between business income, to which an apportionment formula was applied, and all other income, known as nonbusiness income, which was “specifically allocated.” Under this arrangement, which traced back to the twenties, there had developed a broad general practice of treating all intangible income as allocable nonbusiness income. As a result, dividends, interest, patent and copyright royalties, and capital gains from sales of intangibles were usually attributed to the state in which the headquarters office of the receiving corpor-

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**The treatment of intangible income as nonbusiness income had the effect of immunizing a large share of that income from taxation anywhere.**

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location was located. This became known as the state of commercial domicile.

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"An alternative approach seemed preferable to some tax administrators."

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located. But a corporation always retained the option of removing its headquarters office from a state which sought to tax more than a small share of such income. Therefore, the state of commercial domicile usually sought to tax only that portion of such income which would have been taxable if the income had been treated as apportionable business income. Some states taxed even a smaller portion. An alternative approach seemed preferable to some tax administrators.

Under UDITPA, the apportionment formula to which business income was subjected was a three-factor one consisting of sales, property and payroll. A percentage
was achieved by averaging these three factors and then applying that percentage to the taxpayer's total business income. Thus, if 50% of the corporation's total sales, 40% of its total payroll and 30% of its total property were in a state, then 40% (50 + 40 + 30 = 3) of its total business income would be attributed to that state.

Some states have enacted statutes which treat all income as apportionable business income. While they generally have adopted the federal 85% exemption for domestic dividends, the result has been to treat a corporation substantially the same regardless of where it locates its headquarters. The Multistate Tax Commission, in developing UDITPA regulations, took a different tack.

Under UDITPA, "business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute

they reasoned, for the purpose of producing income. Therefore, only in exceptional instances can any of that income be termed anything but business income. If there had formerly been a presumption in favor of defining intangible income as nonbusiness income, the MTC regulations changed the presumption in favor of business income when they were adopted in late 1971.*

"[T]he MTC regulations . . . were adopted in late 1971."

The intriguing thing about the old presumption was that the states had never challenged it in court. The significant effect of the MTC regulations was to challenge it head-on. Since that time, the Courts have

"The drafters of the MTC regulations . . . concluded that there was no legal basis for automatically according non-business status to all income from intangibles . . ."

been afforded their first opportunities to consider the situation. They have uniformly ruled for the MTC approach. In a recent case,** the U.S. Supreme Court has even indicated that a corporation's state of commercial domicile may not have the constitutional right to tax more than an apportioned share of the taxpayer's income; and that most of the intangible income which had historically been accorded nonbusiness status is actually business income subject to taxation on an apportionment basis in all of the states in which the corporation does business. This being the case, the MTC regulations have taken on increased significance as states move to tax

*In February of 1973, they were amended slightly to their present form.

their fair share of that income which they had formerly believed to be beyond their reach.

Under the old approach, if 96% of a company's business was done in states other than its state of commercial domicile; 100% of its intangible income was attributable to the latter by the other states; but a maximum of only about 4% of it usually would be subjected to tax there. The other 96% generally went untaxed anywhere and

"[The U.S. Supreme Court has suggested that . . . most of the intangible income which had historically been accorded nonbusiness status is actually business income subject to apportionment . . .

" . . . what many corporations had perceived as taxpayer problems with the states were perceived by many states as state problems with interstate taxpayers."

became "nowhere income." The new approach affords every state the opportunity to tax an equitable share of that other 96% on a fairly apportioned, nondiscriminatory basis. The result is some assurance to purely intrastate businesses that their interstate competitors will, like them, have to account accurately for all of their income. In other words, discriminatory tax methods which have favored interstate commerce at the expense of intrastate commerce in the past now face elimination.

Corporate tax men were quick to see the handwriting on the wall in 1971. When, in September of that year, the MTC adopted the new approach through its regulations, many of them became open antagonists to the Commission. Originally, they had

looked to the Commission as a new and promising vehicle through which to resolve their interstate tax problems. Many of them had worked long and hard toward that end, particularly those who had served on the Ad Hoc Committee. But the Commission's activities soon revealed that what many corporations had perceived as taxpayer problems with the states were perceived by many states as state problems with interstate taxpayers.

The latter, seeking relief from problems created by diversity among the states, sought to ease compliance coupled in some instances with lower tax liability. But the states, as they studied the situation together through the Multistate Tax Com-

John Fielding, auditor, New York

mission, became increasingly concerned that the current system was denying them tax revenues which were rightly theirs. As this concern ripened into action, many of the largest corporations disassociated themselves from Commissions activities. And some of them led an attack aimed at extinguishing the MTC entirely. A few are still continuing that effort.

Joint Audits

During the developing of the regulations, the Commission had initiated its interstate audit program, now commonly known as the
joint audit program. Under that program, one auditor or one audit team performs an audit on the same corporate business for several states at the same time. This is particularly effective in the income tax field.

determination of the tax base must be made by each auditor. If each of ten states sends an auditor to perform an audit on its behalf, that determination will be made ten different times in a duplication of effort. A joint

"Full apportionment of all of the income of a uniformly defined corporate business by means of a uniform formula would make possible one audit on behalf of all states in which the business was conducted. In fact, such uniformity would also make possible the preparing of one tax return by that taxpayer, with a copy being filed with each of the states along with the appropriate payment."

Robert Milligan, Auditor, Chicago

The reason is that a state corporate income tax audit is largely a geographical audit. Once a taxpayer's income tax base is determined, the balance of the audit is mainly devoted to determining how much of that income is attributable to each state. The auditor does it once for all ten.

Given uniformity of state tax statutes and procedures, a joint auditor could similarly distribute the income among the states once for all. Full apportionment of all of the income of a uniformly defined corporate business by means of a uniform formula would make possible one audit on behalf of all states in which the business was conducted. In fact, such uniformity would also make possible the preparing of one tax return by that taxpayer, with a copy being filed with each of the states along with the appropriate payment.

But such uniformity would result in increases in the total amount of state income taxes which most interstate businesses would have to pay. Many of them are unwilling to concede that the reduced compliance costs and reduced governmental enforcement expenses would be worth the price. Therefore, they have opposed not only the efforts toward uniformity but even the early stages of the joint audit program.

Litigation

In 1972, four corporations, quickly joined by twelve more, sued to challenge the constitutionality of the audit program and of the Compact itself. While this did effectively impede the audit program for the course of the litigation, it also had the effect of emphasizing to the member states the importance of what they were seeking to
accomplish through the Compact. The effect was to cause them to rally behind the Commission and to support its audit program more strongly than ever so that today every member state is benefitting from the program.

The main case took six years to complete; but, on February 21, 1978, the U.S. Supreme Court ruled in favor of the Compact and the Commission on every issue raised. Surprisingly, that has not solved all of the problems.

International Harvester, one of the twelve intervenors in the original suit, has managed to obtain a hearing in a federal court of appeals in San Francisco in a peripheral suit. There, the Commission seeks a court order upon Harvester to submit to an audit assigned to it by the states. Harvester is raising substantially the same arguments there which the U.S. Supreme Court has already disposed of.

And U.S. Steel has sought, in a federal district court in Boise, to limit the parameters of a Multistate Tax Commission audit to which it has been directed by that court to submit. Merck and Co. has a similar matter on appeal to the Oregon Supreme Court.

Policy Considerations

At the base of such opposition to the joint-audit program are significant policy considerations. One is that the corporations have historically dealt with the states one at a time. And each state has dealt with each corporate taxpayer on the basis of insufficient factual information, not knowing what the taxpayer has told the other states in which it operated...and not entitled to know, according to the corporations. In recent years, there has been some growth in the sharing of information among the states but its effectiveness has been limited. The only truly effective approach, given continued diversity among the states, would be for the taxpayer to have to display to each state auditor all of the tax returns which it has filed among the states in which it does business. Only one state, North Dakota, has managed to enforce such a requirement, and then on only one taxpayer. It took a court order to accomplish that; and the court carefully prohibited the state from passing the information on to any other state. It is undoubtedly significant that, since the completion of that audit, the North Dakota Tax Commissioner has frequently urged Congress to subpoena all of the state tax returns of a group of major corporate businesses in order to determine the extent of underpayment of taxes which he asserts to exist.

A joint audit on behalf of all the states in which a corporate business operates would have the same effect. That will not happen unless and until all states are participating in such audits.

Meanwhile, the Commission commonly performs each of its audits for some ten to twelve states. The accumulation of audit information in one place for even this number of states, however, is opposed heavily by certain large corporate businesses. They and many tax administrators alike see in it the forerunner of the end of the divide-and-conquer approach to which the states have been subjected for so long. The Commission's approach is known as "full accountability". Individual citizens, particularly wage-earners whose earnings are subject to withholding and who are therefore fully accountable for all of their income, may find it difficult to understand why this should not also be true of the nation's largest taxpayers, interstate business corporations.
We have already mentioned one effect of the tax administrators’ perceived need for more complete and more meaningful information: the spread of the philosophy that all or nearly all corporate income should be treated as apportionable business income. A complementary consideration more and more. Today some 75% of the income tax states use it to some extent or other; and the U.S. Supreme Court’s recent decision in the Mobil case, supra, will undoubtedly cause all of them to use it more and sooner. The Commission played a part in the litigating of that case.

At issue is the ability of a corporate business to shield income from state taxation through the use of multiple corporations. This has become a matter of major consequence in the last quarter-century, during which multicroporate relationships have proliferated. It is not uncommon today for one “company” to consist of hundreds of corporations. The basis of the unitary business concept is that such a company should be treated the same as a competitor which operates through many divisions of one corporation.

The courts have supported the concept for nearly half a century. But not until the Multistate Tax Commission aggressively furthered the concept did it become a major issue outside California and Oregon. Today, the concept cannot be ignored. The Mobil opinion has settled that. Citing previous decisions to the effect that apportionment is necessary and appropriate for attributing interstate income among states, the U.S. Supreme Court stated that the unitary concept is “the linchpin of apportionability”.

One might add that the unitary business principle is also the linchpin of full

"It is not uncommon today for one ‘company’ to consist of hundreds of corporations. The basis of the unitary business concept is that such a company should be treated the same as a competitor which operates through many divisions of one corporation."

Commission has been a major factor in its spread. When the Commission came into being in 1967, only two states utilized it. Largely through the Commission’s audit efforts and the growth in knowledge and communication which has accompanied them, the states have utilized the concept accountability. Without it, any multicroporate taxpayer takes on different shapes and forms as it moves from state to state. Five of its corporations may report to one state, six others to another state, two of the five plus one of the six to a third state, and so on and on. The resulting kaleidoscopic effect would
“[T]he linchpin of apportionability in the field of state income taxation is the unitary business principle.”

—U.S. Supreme Court

make it nearly impossible to ensure overall tax compliance among the states if the unitary business concept were not available.

Federal Threats

Having failed consistently in the courts, the corporations in question have continued to intensify a collateral effort to kill the

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“[Pending bills in Congress] constitute federal attempts to force the states to subsidize interstate and international business at the expense of intrastate business and of individual citizens.”

unitary business concept via congressional legislation and even through the treaty process. In the mid-seventies, they managed to have incorporated into a then pending tax treaty with the United Kingdom a provision which would have prohibited the applying of the unitary concept to British parents of subsidiaries doing business in this country. Other treaties were to have the same prohibition. This was a desperate attempt to use the interests of foreign parents to defeat the interests of the states. The Multistate Tax Commission was highly active in the effort which defeated that attempt in 1978. It is significant that the proponents of the objectionable treaty provision maintained that it was necessary in order to avoid the discouragement of foreign investment in America; yet, at that time, foreign investment was virtually stampeding into this

country at a higher rate than ever before; and California, the state most criticized by business because of its emphasis on the unitary business concept, was the beneficiary of a more-than-proportional share of the increase in such investment.

Since then, Senator Mathias, long a proponent of anti-state pro-multinational federal legislation, has zeroed in on the unitary business concept at the international level. His current bill, S.1688, and a companion House bill, H.R.5076, would effectively kill the use of the unitary business concept at the international level, and would at the same time immunize from state taxation anywhere those dividends received from foreign corporations by domestic corporations. Such dividends would still be taxable when received by individuals, of course—a classic case of discrimination in favor of international business. The states and the Multistate Tax Commission are vigorously opposing the bills. Such bills constitute federal attempts to force the
states to subsidize interstate and international business at the expense of intrastate business and of individual citizens.

The Future

One must look to the eighties with concern that the state and MTC victories of the seventies not turn to salt. Dramatic advances have been made despite incredibly strong corporate opposition. They must be solidified.

To do so will require increased unity among the states, not only as to what they are against, e.g. restrictive federal legislation, but as to what they are for. They must work together toward the taxing of interstate business income in a manner which is both effective and fair. To do so, they must work toward uniformity. Perhaps, as one tax administrator has maintained, uniformity is a virtue of questionable esteem. But the alternative will almost certainly result in the federal interference which he so ardently opposes.

How can such uniformity best be accomplished? We believe that the Multistate Tax Commission is the answer. Only through it can the states cooperate at both the operational, e.g. audit, level and at the philosophical level. Only through an aggressive ferreting out of significant problems and a courageous attack on them can the states expect to maintain control over their own tax systems against federal thrusts. The MTC provides them with the best available vehicle to accomplish that. But that vehicle needs additional strength.

The Multistate Tax Commission membership still consists of only nineteen states. It deserves a broader base. It needs the support and leadership of more states. It provides all states with a major opportunity to strengthen themselves as a group in coping with interstate taxation problems. The extent to which they take that opportunity may well determine whether the victories to date have been only pyrrhic or whether they presage another decade of progress.
Executive Director's Report

The Commission has continued its program aimed at developing among states a consciousness of, and capability of coping with, complex interstate taxation problems; seeking, successfully to date, to convince the courts of the correctness of its position for constitutional and statutory purposes; and rendering joint audit services to the states.

Education

The Commission conducted an audit seminar in May of 1979. Attended by nearly two hundred auditors from a dozen states, it reviewed modern techniques which are increasingly being utilized in conducting audits of major corporate businesses. Members of the Commission's audit staff and of the audit staffs of some participating states conducted the seminar. Horace Galley, the Supervising Auditor of Utah's Corporate Franchise and Income Tax Auditing Division, organized the program.

A second educational program was conducted by the Commission's Chief Counsel, William Dexter, in December. This was a two-day litigation seminar, which was attended by some thirty-five attorneys from a dozen states, including three eastern non-member states.

The reactions to both seminars have encouraged the Commission to conduct more of them on a wider geographical basis. Both 1979 seminars were in Denver. Future seminars will be arranged for locations farther east.

During 1979, the Commission also co-sponsored a Lincoln Institute of Land Policy Symposium on Forestry Taxation in Cambridge, Massachusetts; and, with American University in Washington, D.C., a two-day Institute on State and Local Taxation of Business.

Audit Manual

The Commission has developed a formal audit manual for corporate income tax purposes and has one pending for sales and use tax purposes. The manuals are meant to serve as guidelines to ensure compliance with the needs of states participating in MTC audits.

The Tax Executives Institute established a committee of corporate tax managers to review the corporate income tax audit manual. As a result of suggestions made by
the manual. The Commission is appreciative of the time and efforts expended by the corporate representatives toward that end.

**Litigation**

The Commission depends upon its Chief Counsel to pursue court support of the concepts which it espouses. These include: full apportionment; full accountability; the unitary business principle; and the right of auditors to have access to full information concerning a corporation's relationships with affiliates and concerning the representations which it has made in the returns which it has filed with the various states in which it does business. For these purposes, access to full information includes access to key corporate officials for interview purposes as well as access to minutes of meetings of corporate boards and committees. In its efforts to expedite audits, the Commission also seeks photocopies of selected documents.

![Image of a litigating seminar.](image)

1979 Litigation Seminar: James Manary, (l) Oregon Department of Justice, and Eugene Corrigan, MTC Executive Director.

1. MTC et al. v. International Harvester et al., U.S. District Court for Idaho, case #1-76-182

In November of 1979, the federal district court in Boise, Idaho verbally ordered U.S. Steel to give Commission auditors access to its corporate minutes in order to determine the parameters of its ununitary business. The court also confirmed the Commission's right to examine the full consolidated federal income tax returns filed by U.S. Steel and its affiliates for the ten years under audit.

When the auditors proceeded to examine the corporate minutes, they found frequent resolutions pertaining to committee reports. Maintaining that those reports were incorporated into the board minutes by reference, the auditors then requested access to those reports. U.S. Steel, claiming harassment by the auditors, has asked the Court to sustain its objection to this request and also to order the auditors to return to U.S. Steel all information obtained as a result of the examination of the minutes of board meetings. This information had been excerpted onto recording tape by the auditors and then transcribed by a secretary into some 450 pages of typewritten matter. A major saving in time and effort could have been effected had U.S. Steel been willing to provide requested photocopies of specified portions of the minutes, something which most taxpayers have been willing to do.

A hearing on U.S. Steel's various motions has been set for August 26, 1980.

U.S. Steel had earlier sought to prevent the Commission from performing the audit on behalf of California. Although the audit covers the years 1967-1976, U.S. Steel noted that it had been litigating for nearly a decade with California over an audit performed by that state for the years 1957-1966; and it maintained that information gathered by the Commission's auditors for the later period might help California in the still-pending litigation for the earlier period. When the Boise federal court refused to prevent California's participation in the audit, U.S. Steel turned to a California district court. That court, too, refused; and California continues to participate in the audit.

International Harvester's appeal from an October 3, 1978 order in the same case has been accepted by the Ninth Circuit Court of Appeals in San Francisco. The issues raised there are substantially similar to those raised
in the Merck case which is discussed below.

2. MTC et al. v. Merck, Oregon Tax Court #1255, February 27, 1979.

Merck & Co. has also challenged the right of the Commission’s auditors to interview key personnel, to examine its books and records and to obtain other information pertinent to the audit. Merck argues that such an audit requirement would be burdensome and would involve sensitive confidential and trade secret material. The Oregon Tax Court rejected these contentions, saying:

“Trade secrets should be protected as fully as possible, but not to such a degree as to preclude a genuine audit. The court assumes that all of the interested states have secrecy provisions which are imposed upon the states’ agents (in this instance the auditors of the Multistate Tax Commission). However, the auditors must be able to audit, which involves the opportunity to scan secret matters in order to exercise a personal judgment as to the relation of such matters to income produced in interstate commerce.”

The appeal was argued in the Oregon Supreme Court in May, 1980. A decision is pending.


In March, 1980, the U.S. Supreme Court gave strong support to the unitary business principle in the Mobil case. Calling that principle “the linchpin of apportionability,” the court stamped its seal of approval on the concepts which the Commission has been sponsoring. These included not only the unitary concept but the premise that all corporate income should be taxable somewhere and that dividends may properly be treated as apportionable business income.

**Legislation**

February of 1980 marked the signing of the U.S.-U.K. Tax Treaty. Significantly, the Treaty did not contain the proposed Section 9 (4) which had been successfully opposed by the states and the MTC. This ratification shifted attention to the Congress. There, bills by Senator Mathias (S.1688) and Representative Conable (H.R.5076) seek to prohibit the applying of the unitary business principle on a worldwide basis to foreign parents operating through subsidiaries in this country. They would also immunize from state taxation most of that income of domestic corporations which is derived from outside the United States in the form of dividends.

Introduced in the summer of 1979, the identical bills would directly affect two thirds of the states by cutting into corporate income tax revenues. The MTC has actively opposed the bills, testifying against H.R. 5076 at a House Ways and Means Committee hearing in March, 1980. The Commission's Washington office has worked extensively with the Treasury Department, other national organizations and local officials, as well as, state tax administrators, on this issue.

At the request of the House Ways and Means Committee’s Oversight Subcommittee, the General Accounting Office (GAO) has undertaken studies of multistate taxation issues and of the Internal Revenue Service's administration of Section 482 (the “arms length” method). The Commission has worked with the study team since the spring of 1979 to ensure that that team is adequately aware of the states' experience and perspectives. The study, which may
recommend model legislation, is due to be completed in late 1980.

Using Data Processing As An Audit Tool

The Commission has developed a system which enables an auditor to schedule information directly into a computer. The key to the system is a 17-pound typewriter-sized portable computer terminal which accepts information onto its own tape. Periodically the auditor sends the information by telephone directly from the terminal to a central computer in Boulder. That computer then processes the information, provides various reports which are sent to the auditor, and upon request makes all computations necessary to the audit. Meanwhile, the terminal itself prints out, on the taxpayer's premises, all information from its own tape.

The system improves speed, accuracy and uniformity in the audit process for both sales and use tax and income tax purposes. While it is especially helpful to the Commission's auditors, the system is also being made available for use by auditors of all states.

Conclusion

Thus, the Commission is continuing its efforts to make it possible for the states to do collectively that which is difficult, and perhaps impossible in some cases, for them to do individually.

The resulting improvements in governmental performance should win increasing support for the Commission.

Selected Bibliography Of Technical Articles, Books and Publications Related to the MTC


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Multinational Corporations and Income Allocation Under Section 482 of the Internal Revenue Code, 89 Harv. L. Rev. 1202.


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Byron L. Dorgan
Tax Commissioner, North Dakota

Ex Officio Member of Executive Committee
Former Commission Chairman

*The three officers are also members of the Executive Committee. Terms of the above officers and committee members end June 30, 1980.
Multistate Tax Commission

Staff Members

Executive Director
Eugene F. Corrigan became the Commission's first staff member in 1969, 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 Stratford, Lafontant, 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.

Chief Counsel
William D. Dexter has been an active barrister in state revenue matters since 1949, when he became an assistant attorney general in Michigan's Treasury Department. He won many important cases there, including the Armaco and Cleveland Cliffs cases, and rose to Chief Attorney for Tax Matters. During those years, his wife studied medicine and, after 17 years in general practice, became a psychiatrist. In 1971, they moved to Olympia, Washington, where she started her psychiatric practice and where he became an assistant attorney general for tax matters assigned to the Department of Revenue. In 1975 he joined the Multistate Tax Commission. As Chief Counsel, his first assignment was to expedite the then-languishing case of U.S. Steel, et al. v. Multistate Tax Commission, et al. He pursued that case to early fruition in the U.S. Supreme Court. Meanwhile, he won the Hertz case in the Washington Supreme Court. He has participated in innumerable other cases on behalf of the Commission and states: (1) via briefs amici curiae in the U.S. Supreme Court, and in the Supreme Courts of Arkansas, Colorado, Idaho, Illinois, Louisiana, Michigan, Missouri, New Hampshire, Oregon and Washington; (2) in oral arguments in all of these states except Arkansas; and (3) in cases before federal courts in Idaho, New York, North Dakota, Washington, and 6th, 8th, and 9th Circuit Courts of Appeal. During the past year he has filed briefs amici curiae in the U.S. Supreme Court in the case

National Audit Manager
Storm Allman joined the Multistate Tax Commission staff in mid-1978. He is a graduate of the University of Wisconsin (B.S.) and of the University of Southern California from which he earned another B.S. and two M.B.A.'s (with majors in quantitative analysis, finance and taxation). His background includes experience as a Senior Accountant (Gallenkamp Stores), Acquisitions Manager (Whittaker Corporation), Materials Manager (A Walter Kidde subsidiary), EDP Consultant (Paramount Studios), Audit Manager (Alexander Grant & Co.) and Corporate Controller (Standy Corporation). His assignment is to apply advanced management concepts and controls to maximize the efficiency of the Commission's audit program.
of Mobil Oil Corporation vs. Commissioner of Taxes of Vermont, 445 U.S. ______, and Exxon Corporation vs. Wisconsin Department of Revenue, U.S. Supreme Ct Docket No. 79-508; and he participated in the argument of the Mobil case before the U.S. Supreme Court. He has been of counsel to numerous state legal staffs in regard to a variety of state and local tax matters. His articles have appeared in the Vanderbilt Law Review, The Urban Lawyer (an American Bar Association publication), Tax Notes magazine, The Journal of Taxation, and in various other publications. He is a leading state government barrister conducting litigation on behalf of uniformity in the application of state taxes to interstate business. The Commission makes his services available to the states in matters which involve interstate tax disputes.

Midwest Regional Audit Manager

Eugene Dowd has been with the Commission for over five years. His prior experience includes thirteen years with the California Franchise Tax Board, in Chicago, performing and supervising income tax audits of large multinational corporations. Previously, he had served as the staff internal auditor of the Armour Research Foundation.

Eastern Regional Audit Manager

Morton Kotkin was appointed Eastern Regional Manager effective November 14, 1978. Prior to this appointment, he served with the Commission as a Senior Auditor for four years. Before joining the MTC in 1974, he had been an auditor and field audit supervisor with the New York office of the California State Board of Equalization for 12 years, performing and supervising sales, use, property and cigarette tax audits of California's largest out-of-state taxpayers. A native of Brooklyn, New York, he graduated from New York University in 1961 with a Bachelor of Science Degree in Accounting.

“We cooperated with the MTC auditors; and their practices and procedures were reasonable.”

—William Spangler
3M Tax Manager

“We 3M was outstandingly co-operative throughout the audit.”

Eugene Dowd, MTC MidWest Regional Audit Manager
Representatives of Party States of the Multistate Tax Compact

Alaska

Member
Tom Williams
Commissioner of Revenue
Department of Revenue
Pouch S
Juneau, Alaska 99811
(907) 465-2302

Alternate
Joseph T. Donahue
Deputy Commissioner
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Pouch S
Juneau, Alaska 99811
(907) 465-2302

Arkansas

Member
Dr. R. L. Qualls
Director, Arkansas Department of Finance and Administration
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Little Rock, Arkansas 72203
(501) 371-2242

Alternate
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Administrator
Office of Tax Administration
Arkansas Department of Finance and Administration
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Little Rock, Arkansas 72203
(501) 371-1626

California

Member
Richard Nevins
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California State Board of Equalization
P.O. Box 1799
Sacramento, California 95808
(916) 445-3996

Alternate
Douglas D. Bell
Executive Secretary
Board of Equalization
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(916) 445-3996

Member
Kenneth Cory*
State Controller
Chairman, Franchise Tax Board
P.O. Box 1468
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(916) 445-2636

Alternate
William Mackey
Executive Officer
Franchise Tax Board
1001 G Street, Suite 302
Sacramento, California 95814
(916) 445-0499

Colorado

Member
Alan N. Charnes
Executive Director
Colorado Dept. of Revenue
1375 Sherman Street
Denver, Colorado 80261
(303) 893-3991

Alternate
Frank Beckwith
Chief of Taxation
Colorado Department of Revenue
1375 Sherman Street
Denver, Colorado 80261
(303) 893-3048

*Chairman of the Board of Equalization represents California in MTC fiscal years beginning in odd-numbered calendar years, and the Chairman of the Franchise Tax Board represents California in MTC fiscal years beginning in even-numbered calendar years.

Hawaii

Member
George Freitas
Director of Taxation
Hawaii Department of Taxation
P.O. Box 259
Honolulu, Hawaii 96809
(808) 548-7650

Alternate
Wallace Aoki
Deputy Director
Department of Taxation
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Honolulu, Hawaii 96809
(808) 548-7562

Idaho

Member
Jenkin L. Palmer
Commissioner
Department of Revenue and Taxation
Idaho State Tax Commission
P.O. Box 36
Boise, Idaho 83722
(208) 334-4635

Alternate
Larry G. Looney
Commissioner
Department of Revenue and Taxation
Idaho State Tax Commission
P.O. Box 36
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(208) 334-4634

Kansas

Member
Michael Lennan
Secretary of Revenue
Kansas Department of Revenue
State Office Building
Topeka, Kansas 66625
(913) 296-3041
Michigan
Member
Loren Monroe
State Treasurer
Department of Treasury
Treasury Building
Lansing, Michigan 48922
(517) 373-3223
Alternate
Sydney Goodman
Commissioner of Revenue
Department of Treasury
Revenue Division
Treasury Building
Lansing, Michigan 48922
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Nebraska
Member
Fred Herrington
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Alternate
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Deputy State Tax Commissioner
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Alternate
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Department of Taxation
Capital Plaza Building
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Carson City, Nevada 89710
(702) 885-4892

New Mexico
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Fred Muniz
Commissioner of Revenue
New Mexico Bureau of Revenue
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Alternate
Art Sneed
Revenue Division Director
New Mexico Bureau of Revenue
P.O. Box 630
Santa Fe, New Mexico 87503
(505) 827-3221 x300

North Dakota
Member
Byron L. Dorgan*
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North Dakota State Tax Department
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Alternate
Robert R. Kessel
North Dakota State Tax Department
State Capitol
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(701) 224-3450

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Alternate
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Chief Tax Counsel
Tax Division
Department of Justice
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Alternate
Orville Dixon
Audit Director
Department of Revenue
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Pierre, South Dakota 57501
(605) 773-3311

*MTCA Chairman, July 1, 1974-June 30, 1975
Texas

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Assistant Comptroller
Legal Services
Office of Comptroller
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Alternate
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Arizona State Tax Department

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Commissioner
Department of Revenue
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Atlanta, Georgia 30334
(404) 656-4016

Louisiana

Shirley McNamara
Secretary
Department of Revenue and Taxation
State of Louisiana
P.O. Box 201
Baton Rouge, Louisiana 70821
(504) 925-7680

Tax Administrators
Associate Member States

The Commission has made provision for associate membership by Section 13 of its bylaws, as follows:

13. Associate Membership

(a) Associate membership in the Compact may be granted, by a majority vote of the Commission members, to those States which have not effectively enacted the Compact or which have, through legislative enactment, made effective adoption of the Compact dependent upon a subsequent condition which have, through their Governor or through a statutory established State agency, requested associate membership.

(b) Representatives of such associate members shall not be entitled to vote or to hold a Commission office, but shall otherwise have all the rights of Commission members.

Associate membership is extended especially for States that wish to assist or participate in the discussions and activities of the Commission, even though they have not yet enacted the Compact. This serves two important purposes: (1) it permits and encourages States that feel they lack knowledge about the Commission to become familiar with it through meeting with the members, and (2) it gives the Commission an opportunity to seek the active participation and additional influence of States which are eager to assist in a joint effort in the field of taxation while they consider or work for enactment of the Compact to become full members.
Maryland
Louis L. Goldstein
Comptroller of the Treasury
State Treasury Building
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Annapolis, Maryland 21404
(301) 269-3001

Massachusetts
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Commissioner
Department of Revenue
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Minnesota
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Commissioner of the Revenue
Department of Revenue
Centennial Office Building
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New Jersey
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Director
Division of Taxation
Department of Treasury
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Trenton, New Jersey 08625
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Tax Commissioner
Department of Taxation
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Columbus, Ohio 43216
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Pennsylvania
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Secretary of Revenue
Department of Revenue
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Harrisburg, Pennsylvania 17127
(717) 783-3680

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Commissioner
Department of Revenue
Andrew Jackson State Office Building
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Director
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Commissioner of Revenue
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Director
Iowa Department of Revenue
Lucas State Office Building
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Commissioner
Department of Revenue
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State Tax Assessor
Bureau of Taxation
State Office Building
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Chairman
Tax Commission
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Department of Revenue
Administration
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Commonwealth of Virginia
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(804) 297-6005

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Department of Revenue
201 E. Washington Ave.
Madison, Wisconsin 53702
(608) 266-1611

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Chairman
Wyoming Tax Commission and
Board of Equalization
2200 Carey Avenue
Cheyenne, Wyoming 82001
(307) 777-7307

*MTC Chairman, July 1, 1972-June 30, 1974
Appendix A

PROGRESS IN UNIFORMITY THROUGH ADOPTION OF THE UNIFORM DIVISION OF INCOME FOR TAX PURPOSES ACT AMONG THE STATES

<table>
<thead>
<tr>
<th>Alabama (1)</th>
<th>Idaho</th>
<th>Missouri (2)</th>
<th>Oklahoma (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska (8)</td>
<td>Illinois</td>
<td>Montana (2)</td>
<td>Oregon</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Indiana (2)</td>
<td>Nebraska (2)</td>
<td>Pennsylvania</td>
</tr>
<tr>
<td>California</td>
<td>Kansas</td>
<td>New Hampshire (6)</td>
<td>South Carolina</td>
</tr>
<tr>
<td>Colorado (2)</td>
<td>Kentucky</td>
<td>Wisconsin (9)</td>
<td>Tennessee</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>Maine</td>
<td>New Mexico</td>
<td>Utah (2)</td>
</tr>
<tr>
<td>Florida (3/4)</td>
<td>Massachusetts (4/5)</td>
<td>North Carolina</td>
<td>Virginia</td>
</tr>
<tr>
<td>Hawaii (2)</td>
<td>Michigan</td>
<td>North Dakota</td>
<td></td>
</tr>
</tbody>
</table>

Georgia is sometimes considered to be a UDITPA state; but its payroll and sales factors are substantially different.
West Virginia has adopted UDITPA but eliminated the sales factor.

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 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 statute. Yet its corporate income tax statute is substantially in accord with UDITPA.
(4) Both Florida and Massachusetts now double-weight the sales factor in the formula. Thus the weights of the factors are: sales 50%, property 25%, and payroll 25%. This constitutes a serious divergence from the uniform laws which jeopardizes uniformity.
(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 codified 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 1946 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 of DISCS, in which the receiving corporation owns more than 15% of the voting stock.

(6) New Hampshire is included here as a UDIITPA state even though its property factor is somewhat different.

(7) Although Oklahoma has not technically adopted UDIITPA, its law appears to be sufficiently close to enable Oklahoma to be considered a UDIITPA state. Attributes income from oil, gas, and lease operations on a "direct" basis.

(8) Attributes sales on basis of wellhead value in the case of oil companies.

(9) Although Wisconsin technically has not adopted UDIITPA, its law appears to be sufficiently close to cause Wisconsin to be considered a UDIITPA state.

Appendix B

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.
Appendix C

UNIFORM SALES & USE TAX CERTIFICATE FORM

SALES AND USE TAX CERTIFICATE
MULTI-JURISDICTION

[Form to be filled in]

[Signature]

[Date]

[Issue Date]

[Expiry Date]

I, [Name], hereby certify that [Company Name] is engaged in the business of [Business Description]
and is registered as a registered [Type of Business] in the State of [State].

[Redacted for space limitation]

I further certify that the property to be purchased and used in the course of this business is not subject to a sales or use tax in the State of [State].

[Redacted for space limitation]

I, [Name], hereby certify that the [Business Name] is registered in the State of [State]
and is engaged in the business of [Business Description].

[Redacted for space limitation]

I, [Name], hereby certify that the property to be purchased and used in the course of this business is not subject to a sales or use tax in the State of [State].

[Redacted for space limitation]

I, [Name], hereby certify that the [Business Name] is registered in the State of [State]
and is engaged in the business of [Business Description].

[Redacted for space limitation]

I, [Name], hereby certify that the property to be purchased and used in the course of this business is not subject to a sales or use tax in the State of [State].

[Redacted for space limitation]

I, [Name], hereby certify that the [Business Name] is registered in the State of [State]
and is engaged in the business of [Business Description].

[Redacted for space limitation]

I, [Name], hereby certify that the property to be purchased and used in the course of this business is not subject to a sales or use tax in the State of [State].

[Redacted for space limitation]

I, [Name], hereby certify that the [Business Name] is registered in the State of [State]
and is engaged in the business of [Business Description].

[Redacted for space limitation]

I, [Name], hereby certify that the property to be purchased and used in the course of this business is not subject to a sales or use tax in the State of [State].

[Redacted for space limitation]

I, [Name], hereby certify that the [Business Name] is registered in the State of [State]
and is engaged in the business of [Business Description].

[Redacted for space limitation]

I, [Name], hereby certify that the property to be purchased and used in the course of this business is not subject to a sales or use tax in the State of [State].

[Redacted for space limitation]

I, [Name], hereby certify that the [Business Name] is registered in the State of [State]
and is engaged in the business of [Business Description].

[Redacted for space limitation]
Appendix D

Report of Certified Public Accountants
Multistate Tax Commission
Boulder, Colorado

We have examined the balance sheet of Multistate Tax Commission at June 30, 1979, and the related statements of changes in fund balance, revenue, and incurred expense and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such 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 Multistate Tax Commission at June 30, 1979, and the results of its operations, changes in fund balance, and changes in financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhode, Scripfer & Associates

July 24, 1979
# Balance Sheet

**June 30, 1979**

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$6372</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>80000</td>
</tr>
<tr>
<td>Prepaid pension plan</td>
<td>675</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>87047</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td></td>
</tr>
<tr>
<td>Office furniture and equipment</td>
<td>63730</td>
</tr>
<tr>
<td>Leased property under capital lease—Note 2</td>
<td>14540</td>
</tr>
<tr>
<td>Leasable improvements</td>
<td>2110</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>80388</td>
</tr>
<tr>
<td><strong>Total Property and Equipment</strong></td>
<td>55661</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Expense account advances</td>
<td>5200</td>
</tr>
<tr>
<td>Deposits</td>
<td>1806</td>
</tr>
<tr>
<td>Prepaid and unamortized past service pension costs</td>
<td>7654</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td>14360</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>84926</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### LIABILITIES AND FUND BALANCE

**CURRENT LIABILITIES**
- Current portion long-term obligation $9,262
- Accounts payable 20,248
- Payroll taxes payable 5,464
- Assessments and audit reimbursements collected in advance 34,718
- **TOTAL CURRENT LIABILITIES** 69,632

**LONG-TERM OBLIGATION**
- Obligation under capital lease—Note 2 13,407
- Note payable installment purchase 18,591
- Less: Current portion above 32,058 9,262
- **TOTAL LONG-TERM OBLIGATION** 22,746

**FUND BALANCE—Exhibit B**
- Unappropriated fund balance 64,660

- **TOTAL FUND BALANCE** 64,660

- **TOTAL LIABILITIES AND FUND BALANCE** 157,058

---

See accompanying notes to financial statements.
**MULTISTATE TAX COMMISSION**

**STATEMENT OF CHANGES IN FUND BALANCE**

For the year ended June 30, 1979

<table>
<thead>
<tr>
<th>Unappropriated Fund Balance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$158,679</td>
<td></td>
</tr>
<tr>
<td>$94,019</td>
<td></td>
</tr>
</tbody>
</table>

BALANCE -- June 30, 1978

Excess of incurred expense over revenue -- Exhibit C

BALANCE -- June 30, 1979

$64,660

See accompanying notes to financial statements.
MULTISTATE TAX COMMISSION

STATEMENT OF REVENUE AND INCURRED EXPENSE

For the year ended June 30, 1979

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessments</td>
<td>$738,694</td>
</tr>
<tr>
<td>Interest</td>
<td>9,422</td>
</tr>
<tr>
<td>Other revenue</td>
<td>1,732</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>749,841</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Incurred Expense</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and other compensation</td>
<td>$496,602</td>
</tr>
<tr>
<td>Employee group insurance</td>
<td>30,814</td>
</tr>
<tr>
<td>Pension plan and retirement provision</td>
<td>72,882</td>
</tr>
<tr>
<td>Travel</td>
<td>76,446</td>
</tr>
<tr>
<td>Bonds and insurance</td>
<td>1,084</td>
</tr>
<tr>
<td>Rent</td>
<td>52,067</td>
</tr>
<tr>
<td>Office supplies</td>
<td>5,850</td>
</tr>
<tr>
<td>Postage</td>
<td>5,098</td>
</tr>
<tr>
<td>Printing and duplicating</td>
<td>45,736</td>
</tr>
<tr>
<td>Telephone</td>
<td>23,409</td>
</tr>
<tr>
<td>Publications</td>
<td>3,666</td>
</tr>
<tr>
<td>Conferences, committee meetings and hearings</td>
<td>2,234</td>
</tr>
<tr>
<td>Accounting</td>
<td>4,009</td>
</tr>
<tr>
<td>Consulting fees</td>
<td>31,537</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>7,120</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>2,177</td>
</tr>
<tr>
<td>Bad debts</td>
<td>8,700</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,444</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2,176</td>
</tr>
<tr>
<td><strong>Total Incurred Expense</strong></td>
<td>643,860</td>
</tr>
</tbody>
</table>

**Total of Incurred Expense Over Revenue** | $(94,019)

See accompanying notes to financial statements.
MULTISTATE TAX COMMISSION

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended June 30, 1979

SOURCE OF WORKING CAPITAL

From operations:

Excess of revenue over incurred expenses—Exhibit C $ (94,019)
Add: Charges to operations not requiring the use of working capital:

Depreciation and amortization 7,120
Pension plan past service costs paid in prior years and expensed currently 1,465

TOTAL FUNDS PROVIDED BY OPERATIONS ........................................... (85,434)

OTHER SOURCES

Installment purchase of equipment 21,403
Equipment purchased under capital lease 14,540
Net book value of equipment sold 4,719
Decrease in deposits 115

TOTAL SOURCES OF WORKING CAPITAL ........................................... (44,657)

USES OF WORKING CAPITAL

Employee expense advances 700
Acquisition of furniture and equipment 39,132
Acquisition of leased equipment under capital lease 14,540
Acquisition of leasehold improvements 223
Reduction of long-term obligation 13,197

TOTAL USES OF WORKING CAPITAL ........................................... 66,794

Net decrease in working capital ............................................. (111,451)

Working capital—June 30, 1978 128,936

Working capital—June 30, 1979 $ 17,485

CHANGES IN COMPONENTS OF WORKING CAPITAL—Increase (Decrease)

Cash and certificates of deposit $ (78,051)
Insurance refund receivable (1,498)
Assessments and audit reimbursements receivable (20,660)
Prepaid insurance (936)
Prepaid pension costs 675
Current portion long-term debt (9,262)
Accounts payable (9,561)
Payroll taxes payable 3,816
Accrued retirement provision 4,149
Assessments and audit reimbursements collected in advance 29,675

DECREASE IN WORKING CAPITAL .................................................. $ (111,451)

See accompanying notes to financial statements.
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.

The following accounting policies, together with those disclosed elsewhere in the financial statements, represent the significant accounting policies followed in presenting the accompanying financial statements.

(a) Method of Accounting

The Commission uses the accrual 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 earned revenue is recognized as it is earned. Expenses are recognized as they are incurred.

(b) Property and Equipment

All property and equipment is recorded at cost. Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is provided for on the straight-line basis over the term of the lease.

NOTE 2 - An equipment lease has been recorded as a capital lease in accordance with FASB 13. The gross amount of the capitalized lease and the accumulated depreciation thereon are included in Property and Equipment on the Balance Sheet. The depreciation of 1972 is included in depreciation in the Statement of Revenue and Incurred Expenses.

At June 30, 1979, the future minimum lease payments under this lease were:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 1980</td>
<td>35,232</td>
</tr>
<tr>
<td>1981</td>
<td>5,232</td>
</tr>
<tr>
<td>1982</td>
<td>5,232</td>
</tr>
<tr>
<td>1983</td>
<td>2,646</td>
</tr>
</tbody>
</table>

The obligation has been recorded as Long-Term Obligation as an Obligation Under Capital Lease in the amount of $13,407.
NOTE 3 - INCOME 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 4 - PENSION PLAN

The Commission has a defined benefit pension plan covering substantially all of its employees. The total pension expense for the year was $72,882, which includes amortization of prior service cost over 10 years. The Commission's policy is to fund pension cost accrued. The actuarially computed value of vested benefits as of June 30, 1979, is fully funded.

The Commission also accrues 16.7% of the gross salaries of the personnel on leave of absence from State taxing authorities and makes contributions to their respective plans, if employment with the Commission is terminated and the employee returns to State employment before the expiration of the leave of absence. The current year's accrual and corresponding expense attributable to State employees on leave of absence amounted to $900, which is included in the total pension expense aforementioned.

Actuarially determined normal pension plan costs for the year ending June 30, 1980 are $82,800 based upon covered payroll at June 30, 1979.

NOTE 5 - COMMITMENTS

The Commission rents its primary office facilities in Boulder, Colorado, and secondary office facilities in New York, Illinois, Washington, D.C., 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:

<table>
<thead>
<tr>
<th>Fiscal Year Ended</th>
<th>Minimum Annual Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 1980</td>
<td>$ 35,818</td>
</tr>
<tr>
<td>June 30, 1981</td>
<td>27,796</td>
</tr>
<tr>
<td>June 30, 1982</td>
<td>24,857</td>
</tr>
<tr>
<td>June 30, 1983</td>
<td>22,402</td>
</tr>
<tr>
<td>June 30, 1984</td>
<td>25,596</td>
</tr>
</tbody>
</table>

Rental expense for the fiscal year ended June 30, 1979 amounted to an aggregate of $52,067.
NOTE 6 - SUBSEQUENT EVENTS

The Commission has entered into a lease purchase agreement for an IBM Series 1 Model 4955 computer with supporting drive, terminals and peripheral equipment. The lease term is 60 months with monthly payments of $2,835.50 beginning August 17, 1979. Total payments required are $170,131.

In conjunction with the acquisition of this equipment, the Commission has entered into agreements with various states to provide portable terminals and service for processing sales and use tax information to the states for various fees. The portable terminals will be acquired as needed through lease purchase arrangements.

Budgeting for operations during the 1979-80 fiscal year was done on the basis of receiving a certain level of funding from each of the member states. Subsequently, some of the budgeted funding has not been provided, resulting in a shortfall of budgeted revenues of approximately $60,000. The Commission is reviewing proposals to fund the shortfall.