



MULTISTATE TAX COMMISSION

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[www.mtc.gov](http://www.mtc.gov)

February 12, 2015

[Tax Administrator]  
[Organization]  
[Address 1]  
[Address 2]  
[City], [State] [Zip Code]

RE: A Proposed Multistate Tax Commission Arm's-Length Adjustment Service

Dear [Title] [Last Name]:

I am writing to invite [State] to join with other leading states in a new, cooperative effort to reduce corporate income tax avoidance: A proposed Arm's-Length Adjustment Service (ALAS) program by the Multistate Tax Commission.

This proposed service has been designed over the past year by nine states committed to effectively addressing corporate income tax compliance issues. We are excited about the promising value of this service for states and are confident it will produce significant results in reducing improper corporate income shifting. Estimates of federal revenue loss from international income shifting suggest that those losses approach \$100 billion annually. Based on this federal estimate, state revenue losses would be nearly \$20 billion a year. Assuming ten participating states and using conservative estimates, the service is expected to generate over \$110 million in revenues in its initial four years of operation—more than 14 times its anticipated budget. If more states participate, the results will be even greater.

Beyond generating revenue, the service will improve competitive equity among corporate taxpayers and build public trust that tax agencies are holding all taxpayers to high standards of accountability. Further, a centerpiece of this service is to begin building and continually develop the capacity of participating states to address complex, related party issues in corporate taxation—so that states can keep pace with private sector tax planning well into the future.

The service will enable states to overcome a key obstacle to curbing tax avoidance through related party transactions: the nearly prohibitive cost of outside economics expertise to analyze taxpayers' transfer pricing documentation. The service makes this expertise affordable by pooling state resources and acquiring the necessary analytical capability through both contractors and staff development. The service then combines this expertise

with training and other assistance for states to ensure that maximum benefits are achieved for each dollar invested.

This is an opportunity for your state to participate in the service for a charter period of four years, subject to the availability of sufficient agency appropriations. After an initial start-up year, the service will likely cover most, if not all, of its four-year cost in the second year through initial operations and a voluntary disclosure opportunity for taxpayers. The remaining two years of operations should provide states with the expected, positive return on investment.

As a member of this service, your state will continue to guide and shape this effort through:

- Representation on the Arm's Length Adjustment Service committee,
- Selection of cases for related party and transfer pricing analysis,
- Participation in training activities for your staff,
- Exchanging information with other states, and
- Requesting assistance for your state in developing and resolving cases, improving compliance processes, and defending assessments on appeal.

The cost of the service for each state will vary depending on how a state uses the service, the number of participating states and on the size of the state in terms of general corporate tax revenues. Assuming ten participating states, the average fees for the service per state will be about \$125,000 in the first year and \$210,000 annually in the following three years. The actual fees will vary from these average amounts depending on the size of state revenues, likely within a range of approximately \$140,000 to \$380,000 for the latter three years. In the coming weeks we will be better able to provide estimates as states express initial interest in participating in the service.

We invite you to review the enclosed Preliminary Design and provide any comments on it. We would appreciate receiving those comments and an indication of your state's interest in participating in the service by March 31, 2015. In the meantime, if you or your staff needs any clarifications related to the design, we would be glad to set up a conference call to discuss those matters with state tax agency experts and MTC staff that have helped design the service.

Once we know which states are interested in participating in the service, we will generate cost estimates for each state. We will also respond to suggestions concerning the service design and provide a draft memorandum of understanding for the service. After interested states receive this additional information, we will ask for a final commitment for participation by April 30, 2015.

Please note that the Commission is also organizing a training course for state auditors on “Identifying Related Party Issues in Corporate Tax Audits” to be scheduled in late March or early April. This course will preview the training to be provided through the Arm’s-Length Adjustment Service.

The Commission’s Executive Committee will review state participation and final plans for the service at its meeting on May 7, 2015. Our goal is to formally launch this service in July of this year.

We look forward to your consideration and response soon to this opportunity to improve corporate tax compliance.

Best Regards,

Joe Huddleston, LL.D.  
Executive Director

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