



MULTISTATE TAX COMMISSION

To: Executive Committee  
From: Joe Garrett, Chair, Arm's-Length Adjustment Service Advisory Group  
Date: April 30, 2015  
Subject: Report of the Arm's-Length Adjustment Service Advisory Group

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### I. Formation

Based on the interest and funding of nine states, in March 2014 the Commission initiated a project for the design of a Multistate Tax Commission Arm's-Length Adjustment Service (ALAS), including securing initial commitments for state participation in such a service. A project facilitator was hired, and the ALAS Advisory Group was formed by the nine states designating representatives for the design project by the end of April 2014.

The group was composed of the following states and representatives:

State	Representative
Alabama	Holly Coon
	Joe Garrett, Jr.
D.C.	Glenn Groff
Florida	Eric Peate
	Marshall Stranburg
Georgia	Pete Donnelly
	Bill Esmond
Hawaii	Ted Shiraishi
Iowa	Stu Vos (as of 2015)
	Lisa Casper (as of 2015)
	Brianna Sime (through 2014)
	Jim McNulty (through 2014)
Kentucky	Marcia "Ann" Oakman
	Don Richardson
New Jersey	Lee Evans
North Carolina	John Seibert
	Lennie Collins

### II. Group Meetings and Project Activities

The project facilitator conducted in-depth interviews with the representatives of each state on the advisory group during April and May of 2014. These interviews covered each

state's laws and practices relevant to the project, experiences, potential project issues, and expectations.

The group held its first meeting on June 2, 2014, in St. Louis, Missouri. At that meeting, the group selected Joe Garrett as chair, reviewed the project purpose and scope, held a roundtable discussion of each state's laws and practices relevant to the project, heard a report from the project facilitator on state experiences and potential project issues, and discussed project challenges and opportunities.

The project facilitator conducted in-depth interviews with seven vendors who had reached out to the Commission with interest in the ALAS project. These vendors were interested in providing various types of transfer pricing services to the states, and provided information useful information to Mr. Bucks with regard to these services. [Note: The Commission welcomed any vendor with interest to engage in the process.]

The group next held a teleconference on June 25, 2014. The group discussed progress reports on joint economics expertise, and on information management and exchange, as well as a discussion of joint audit options.

The group met on July 28, 2014, in Albuquerque, New Mexico. That meeting was spent discussing the elements of the service design, based on the priorities and needs of the advisory group states. The following elements were discussed at that time:

- Joint Economics Expertise
- Information Management and Exchange
- Optional Joint Audit Services.
- Training Services
- Possible Services Related to Joint Case Resolution and Advanced Pricing Agreements

Also at that meeting, the group's consensus that a conference with transfer pricing economics firms would be beneficial to the group and tentative plans for such a conference in conjunction with a group meeting in the fall were discussed.

The project facilitator again conducted in-depth interviews with the representatives of each state on the advisory group during August and September of 2014. These interviews were to gauge each state's views on what design elements had the highest priority, and get each state's perspective on the project's progress.

On October 6-7, 2014, the group met in Atlanta, Georgia. The first day was a conference with interested vendors, each vendor having an hour to discuss relevant issues with the group. Seven vendors participated. The following day the group held a meeting where, after discussion of items learned from the previous day's conference, the group had an initial walk-through of a preliminary arm's-length service design, encompassing the following:

- Review of Project Mission, Goals and Objectives
- Services and Functions
- Staffing and Timetable for Phasing in Services
- Options for Contractor Services
- Budget Estimates
- Options for Distribution of Costs among States
- Other Items Relevant to Project Design

Based on feedback from the group, this preliminary design would be revised and design options developed, aiming for a completed draft design by mid-November.

At a teleconference meeting on November 3, 2014, the group settled on a recommended design, but decided that three design options would be presented to the Executive Committee at your December meeting. The design options differed in the amount of reliance on outside vendors for economics expertise and the timing of staff additions and the rollout of service components.

The advisory group chair and the project facilitator presented the recommended draft design and the design options to the Executive Committee for their input and guidance. The Executive Committee commended the group's recommended design and agreed that the Commission should begin to solicit states to determine interest in being charter states in a Commission ALAS (this solicitation of interest began in February 2015 and is discussed in section III).

The group held a teleconference on March 4, 2015, where they heard reports relevant to the project and to work through a draft model contract and agreement between the Commission and each charter state.

The group last met on April 7, 2015, via teleconference to review the final program design which will be presented to the Executive Committee at its meeting on May 7, 2015. The group also worked through examples illustrating the economic analysis fee process contained in the draft model contract and agreement between the Commission and each charter state. This draft model contract and agreement would form the starting point of a

state's participation in an ALAS, but further refinement and requirements of state contracting processes would be met through Commission staff working with each charter state individually.

All meetings of the advisory group were conducted in accordance with the Commission's Public Participation Policy; no closed sessions were held during the meetings. The vendor conference on October 6, 2014, was open to the public and interest states as well (vendors, as a courtesy, were ask to remain outside the room except during their own presentation).

### **III. State Interest in ALAS Charter Membership**

In February 2015, the Commission sent 48 letters to all states that tax corporate income in some manner explaining the background of the ALAS project and the relevant issues facing the states. The letter included the design for the program and solicited input on that design. The letter also made available members of the advisory group, the project facilitator, and Commission staff to discuss the program and any questions. To date, 31 states have responded. The following states have indicated they want to become charter members of a Commission ALAS service:

Alabama  
Iowa  
Kentucky  
New Jersey  
North Carolina  
Pennsylvania