

Report from Nexus Membership Project Team

July 8, 2015

To

MTC Nexus Committee

and

MTC Strategic Planning Steering Committee

**Background**

At the recommendation of the Nexus Committee, the MTC Strategic Planning Steering Committee approved a project to identify the barriers to state membership in the National Nexus Program and propose solutions to remove those barriers. The project included identifying the program characteristics that attract states to become members. The project team started its work in fall 2014 and concluded in May 2015. This report describes our findings and conclusions, and makes recommendations concerning possible next steps to be taken.

**Project Description**

*Problem:* There are currently 14 states that are not members of the National Nexus Program\*. The National Nexus Program has goals related to the vitality and reputation of the program and engagement of the states. These goals can be achieved by attracting as many of these states as possible to join the program.

*Risks:* When a significant number of states are not members of the National Nexus Program, member and non-member states alike lose the opportunity to work together to address nexus issues; and there is a higher risk of inconsistent administration of nexus standards. In addition, the program cannot provide voluntary disclosure services to taxpayers with respect to non-member states, which interferes with the Commission's vision to be the leading resource for ensuring equitable tax compliance.

*Expected outcomes:* The project goals were -

- List the specific barriers to state membership in the National Nexus Program.
- List the specific benefits of membership in the National Nexus Program.
- Recommend steps that can be taken to overcome barriers.
- Recommend enhancements to current benefits or services to make the program more attractive to states.
- Recommend steps for marketing the National Nexus Program to non-member states.

\*The non-participating states are:

Alaska, California SBE, California FTB, Wyoming, Maine, Rhode Island and Ohio, all of which participated in the past.

Delaware, Illinois, Indiana, Mississippi, Nevada, New York, Pennsylvania and Virginia, which have never participated.

## **Process**

We gathered information through surveys of states that are not currently participating in the National Nexus Program. We were able to complete surveys for five non-participating states. Three of those had participated in the National Nexus Program in the past, two had never participated.

We also gathered information through an e-mail survey and general discussion with states that are currently members of the National Nexus Program. We got feedback from about a dozen member states on the benefits they receive from their membership and the aspects of the program that they value the most.

## **Results**

### **Barriers to Participation**

We drew the following conclusions from our conversations with states that are not currently participating in the National Nexus Program:

- Those states are more familiar with the multistate voluntary disclosure program than with other activities of the National Nexus Program.
- State budget priorities are often a primary driver in the decision whether to participate
- Persistent lack of significant revenue from the multistate voluntary disclosure program by some states is also a significant driver in the decision whether or not to participate.
- If a state has only one major tax (sales or income), information sharing is likely to be perceived as being less useful.
- Two states have inquired about participating while we were conducting this project. One has already committed to join the National Nexus Program.

From these surveys, we conclude that the barriers to participation are primarily related to financial considerations. States that do not participate do not see a sufficient benefit to justify their cost. Since we were unable to make contact with a majority of the non-participating states, we cannot draw any conclusions about other reasons for their failure to participate.

### **Benefits of Participation**

In our conversations with states that currently participate in the National Nexus Program we learned that those states place the highest value on the multistate voluntary disclosure program and the nexus training program. States that are currently participating also would like to see more outreach to taxpayers and practitioners about the multistate voluntary disclosure program; and more information sharing among the states about legal developments, audit results, and best practices for taxpayer discovery and developing leads.

## Recommendations

The project team offers the following recommendations, based on the information available from the states we heard from:

- The National Nexus Program would benefit from additional marketing activity. We specifically suggest that:
  - The MTC Strategic Planning Steering Committee consider extending the MTC outreach program to states that do not currently participate in the commission and highlight the benefits of the National Nexus Program when contacting those states.
  - The National Nexus Program Director identify non-participating states that have taken advantage of the nexus schools in recent years, and follow up with those states about possible membership in the National Nexus Program.
  - The National Nexus Program Director and the chair of the Nexus Committee look for opportunities to partner with FTA and regional state tax associations to share information about National Nexus Program activities.
- We recommend that the MTC Executive Committee consider developing a phased-in fee structure for states joining National Nexus Program, similar to the approach used in the Multistate Joint Audit Program.
- We defer making any recommendations about the Multistate Voluntary Disclosure Program to the project team that is looking at that program area.
- We recommend that the Nexus training program be expanded. We recognize that additional training activity would require additional resources or a shifting of existing resources.
- We recommend that the National Nexus Program Director provide regular updates on legal developments to the states at Nexus Committee meetings. (Note: just before the development of this recommendation, the National Nexus Program Director had initiated this activity.)
- We recommend that the Nexus Committee consider sponsoring a project to develop better tools for information sharing among the states on taxpayer discovery, audit results and developing leads.

Respectfully submitted,

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