Fourteenth Annual Report

Multistate Tax Commission

Fiscal Year 1980-1981

For the fiscal year of July 1, 1980-June 30, 1981

Multistate Tax Commission

EUGENE F. CORRIGAN, Executive Director

November 1, 1981

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 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.

I respectfully submit to you the fourteenth annual report of the Multistate Tax Commission. This report covers the Commission's activities for the fiscal year beginning July 1, 1980 and ending June 30, 1981. It includes a report on receipts, expenditures and operations for that period from Rhode, Scripter & Associates, Certified Public Accounts in Boulder, Colorado.

Respectfully submitted,

Eugene F. Corrigan

Eugene F. Corrigan
Executive Director

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Executive Director's Report

Introduction

As this is written in early November, the Multistate Tax Commission looks back onto one of its busiest, most successful and most satisfying years. It increased its membership, increased and improved its audit capabilities, conducted a series of highly successful seminars, published various materials which are in demand, experienced continued litigation success, and saw its philosophy become dominant in the state income tax field. It looks ahead to more of the same plus a possible role in the field of oil and gas taxation.

Membership

The Commission took one step backward but two steps forward in membership.

Nevada withdrew because of its reluctance to allow a sales tax credit. The Compact provides: "Each person liable for a use tax on tangible personal property shall be entitled to full credit for the combined amount or amounts of legally imposed sales or use taxes paid by him with respect to the same property to another State and any subdivision thereof." The purpose of the provision is to prevent double taxation of the same transaction of purchase. Nevada, like Wyoming before it, withdrew out of concern that the provision deprived the state of use tax revenue on property purchased elsewhere but used within the state.

West Virginia and Washington, D.C. swelled the membership to 20 during the summer. This brought the percentage of membership among the states to nearly 40%. West Virginia's Tax Administrator, Herschel Rose, was elected to the Executive Committee at the Commission's Annual Meeting in July.

Audit Program

The Commission replaced its Audit Manager, formerly based in Boulder, with one now based in New York; and it increased its staff. It now has eleven auditors in addition to the manager plus office support personnel. Approximately one-third of the audit effort is directed at sales and use tax audits and the remainder primarily at corporate income tax and business and occupation tax audits.

The audits are performed in accordance with procedures approved by the participating states. Consequently, the states have generally accepted tax liability recommendations resulting from those audits in which they have participated. This support of the audit program by those states has made it increasingly effective. While a residue of corporate resistance remains, it is usually directed at the application of unitary apportionment, a concept which is espoused by the Commission and is being challenged in various lawsuits but which the U.S. Supreme Court has strongly supported to date.

Seminars

The unitary apportionment concept was the focal point of four legal seminars which the Commission presented during the summer. Conducted in Denver, New York, Chicago and Kansas City, they attracted nearly three hundred people. Attendees were about evenly divided overall between government and industry representatives. The recently decided *Caterpillar* case (see below) had thrust Illinois into the application of unitary apportionment through combination; and the Revenue Department's legal staff was preparing new regulations.

During each seminar, the Commission's General Counsel, William Dexter, reviewed the legal history of income attribution among the states for tax purposes. Tracing the source back to the unit rule applied to the old Railroad cases in 1875 for property tax purposes and the establishment of unitary apportionment for income tax purposes in the 1897 *Adams Express* case, he covered the development of attribution procedures to recent and current cases, in most of which he has participated. In doing so, he dealt in depth with the problems and opportunities which are presented by unitary apportionment.

The Dexter approach was legalistic in nature. Fred Cappetta, former MTC Audit Coordinator, dealt with practical aspects of auditing unitary businesses and of taxpayer compliance with unitary business requirements. At the Denver seminar, Colorado Assistant Attorney General Chris Eliopulos discussed procedures available to state lawyers to buttress the work of auditors.

The overall purpose of the seminars was to provide an understanding of the unitary business principle, of its advantages, of the manner in which it should be applied, of problems attendant to it and how to solve them, and of how the principle can be utilized by both states and taxpayers. Additional seminars are being planned for 1982.

Unitary Apportionment Gains

The cause of unitary apportionment received two substantial boosts shortly after the completion of the seminars: New Hampshire enacted legislation adopting combination, which is the method by which unitary apportionment is applied; and shortly thereafter, New York's legislature adopted the method, although only for application to oil companies.

A few months earlier, in February, the Illinois Supreme Court had confirmed that combination is appropriate for use in Illinois in determining the taxable income of a multicorporate multinational business enterprise. The case, *Caterpillar Tractor Co. v. Lenckos*, 84 Ill. 2d 102, has been accepted on appeal by the U.S. Supreme Court. The appellant, however, is not Caterpillar, which has proven to the satisfaction of the courts that it is engaged in a unitary business. Rather, the appellant is Chicago Bridge & Iron Co., one of several companies which intervened in the proceedings in Illinois in order to oppose combination. The MTC is an *amicus* in this case on behalf of Illinois.

The validity of combination as applied to a multicorporate multinational unitary business is also at issue in the case of *Container Corp. of America v. California Franchise Tax Board*, 117 Cal. App. 3d 988. The California Appellate Court there upheld the validity of combination as applied to the taxpayer. When the California Supreme Court denied a hearing in June, the taxpayer appealed to the U.S. Supreme Court. The thrust of Appellant's argument was that combination produces an inequitable and unreasonable result as applied to its operations and that it was not conducting a unitary business with its foreign affiliates.

In two other cases, the Kentucky and Kansas supreme courts have accepted appeals in which taxpayers are arguing against the application of combination to them in those states. In *Department of Revenue v. The Early & Daniel Company, Inc.*, Ken. Sup. Ct. No. 81-SC-353-D, the Court will review a decision by the Court of Appeals that the Kentucky Department of Revenue lacked authority to combine a parent and its DISC unless it found a lack of arm's length dealings between affiliated corporations. In *Department of Revenue v. Dow Chemical Company*, No. 81-53382-AS, the Kansas Supreme Court will review a district court decision that combined reporting is permissible under the Kansas Income Tax Act. The MTC is an *amicus* in both of these cases on behalf of the states. The General Counsel is handling the Kansas case as lead attorney.

Other Litigation

The U.S. Supreme Court has accepted appeals of two state corporate income tax cases which involve business-nonbusiness questions. The cases are *F.W. Woolworth Co. v. New Mexico*, No. 80-1745 and *ASARCO, Incorporated v. Idaho State Tax Commission*, No. 80-2015. Both involve the question of whether dividends from payor corporations can constitutionally be subjected to apportionment as business income regardless of whether the payee corporation conducts a unitary business with the payor corporations. The taxpayers argue that, if such dividends are to be apportioned, the apportionment formula should be modified to reflect factors of the payor corporations. Woolworth also questions the constitutional validity of "grossing up" foreign source dividends. ASARCO raises the additional question of whether apportionment should be applied to interest and gains from the disposition of stock of corporations which did not conduct a unitary business with ASARCO. The MTC is an *amicus* in both of these cases on behalf of the states. These cases and *Caterpillar* will be argued successively before the U.S. Supreme Court since the subject matter of all three is closely related.

MTC Litigation

While the Commission has been active as an *amicus* in several cases, it has proceeded on toward the successful conclusion of the last of the litigation in which it was a named party. One case has recently been completed, and the other now appears to be completed.

In *MTC v. International Harvester Company*, No. 78-3746 (Feb. 1981), the U.S. Court of Appeals for the Ninth District upheld the right and authority of the MTC to conduct an income tax audit of that taxpayer's books and records. Harvester did not seek to appeal from that ruling.

In *MTC v. International Harvester, U.S. Steel, et al.*, No. 80-3457/3494 (October 7, 1981), the same Court of Appeals affirmed the right and authority of the MTC to perform a similar audit of U.S. Steel. The Court provided for *in camera* inspection by the District Court, upon the taxpayer's request, in order to ensure protection of trade secrets. The taxpayer requested a rehearing on the basis of its allegation that the Court had failed to address the question of whether the District Court had the authority to toll the statute of limitations to permit the MTC to complete the audit. The rehearing was denied on November 12, 1981. An appeal is not anticipated.

The results of the four major cases in which the MTC has been a party over the years (Hertz, U.S. Steel, International Harvester, and Merck) have upheld the validity of the Compact and the implementation of its audit program. It is the Commission's hope that continuing taxpayer cooperation will eliminate the need for any further litigation in which the Commission is a party.

Pending Federal Bills

As has been the case since 1965, bills are pending in Congress which would restrict the ability of the states to administer their taxes effectively. Such bills have historically been aimed at state corporate income taxes, as is true of two this year, S. 655 (Mathias) and H.R. 1983 (Conable). Four others are aimed at severance taxes. They are H.R. 4841, H.R. 1313, H.R. 4044 and S. 178. All of the bills aim at reversing the effect of court decisions. The severance tax bills would place a ceiling on severance tax rates. That would overcome the effects of the recent U.S. Supreme Court decision in *Commonwealth Edison Co. vs. State of Montana*, U.S. Sup. Ct. Dkt. #80-581 filed July 2, 1981. There the Court held that there is no constitutional impediment to a state's imposing a coal severance tax at a

Chicago Seminar

maximum rate of 30% of the "contract sales price."

The Mathias and Conable bills purport to prohibit the inclusion in a combined report for unitary apportionment purposes of any "foreign corporation," as defined therein. They would also exempt most intercorporate dividends. The Commission adamantly opposes such legislation. At its July annual meeting, it adopted the following resolution on the subject:

> WHEREAS, the Multistate Tax Commission has long supported the freedom of the states to establish their own tax policy without interference from the federal government; and
>
> WHEREAS, legislation which is now pending before the U.S. Congress, would effectively limit the states' ability to levy and collect severance taxes on minerals extracted within the states; and
>
> WHEREAS, the Multistate Tax Commission and its member states are unalterably opposed to such intrusion into the sovereign affairs of the states by the federal government;
>
> NOW THEREFORE, BE IT RESOLVED, that the Multistate Tax Commission, in annual meeting convened this sixteenth day of July, 1981, does hereby reiterate its opposition to the enactment of any federal legislation to restrict or limit the states' right to enact severance or other mineral extraction taxes.

The Commission also adopted the following more general resolution against restrictive federal legislation of any kind:

> WHEREAS, the Multistate Tax Commission has long encouraged the use of the uni-

tary apportionment principle and the full accountability principle in applying state net income taxes to profits from multistate and multinational businesses; and

WHEREAS, the U.S. Supreme Court and other courts throughout this country have consistently upheld the validity of and need to use said principles for said purposes; and

WHEREAS, the increasing utilization of said principles is greatly increasing the effectiveness of the states in ensuring that multistate/multinational corporate businesses pay their fair share of income taxes to the various states in which they operate; and

WHEREAS, bills H.R. 1983 and S. 655, which are now pending before the U.S. Congress, would effectively prohibit the use of said principles by the states in administering their corporate income taxes; and

WHEREAS, these bills would grant preferential treatment to some multistate/multinational corporations; and

WHEREAS, the Multistate Tax Commission and its member states are unalterably opposed to such intrusion into the sovereign affairs of the states by the federal government.

NOW THEREFORE, BE IT RESOLVED, that the Multistate Tax Commission, in annual meeting convened this sixteenth day of July, 1981, does strongly oppose the enacting of these bills into law.

These resolutions are similar to others which the Commission has adopted over the years. The importance of this opposition is greater this year than ever before; federal cutbacks are shifting greater burdens onto the states which cannot, therefore, afford to have their non-federal revenues jeopardized by restrictive federal legislation.

Publications

This fall, the Commission inaugurated a quarterly review of developments in areas of interstate taxation affecting the Commission or affected by it.

It also published in book form, for the first time, the presentations made by speakers at its annual meetings . . . those of 1980 and 1981.

Earlier, it published two books of materials for the legal seminars. One was a treatise on worldwide combination by Geoffrey Harley, a New Zealander. The book was Harley's thesis for his Ph.D. in Law at the University of Michigan. It is already in its third printing. The other book consists of course materials which were compiled by Bill Dexter.

All four of the above books are available for purchase from the Commission. The Review is currently distributed free of charge to the Commission's mailing list.

Regulations

In 1981, the Commission adopted a special railroad regulation. In earlier years, the Commission had adopted Allocation and Apportionment Regulations and a special regulation pertaining to contractors.

Adoption of a regulation by the Commission constitutes a recommendation that states adopt it for use on a uniform basis. Many states have adopted the Allocation and Apportionment Regulations; and several are already using one or both of the special regulations.

Committees

The Audit Committee and the Uniformity Committee have been especially active this year. They have contributed much to the quality of the Commission's activities.

Thus, the Audit Committee has worked closely with the new audit manager to produce closer cooperation between the states and the MTC staff in planning and coordinating joint audits, and the Uniformity Committee has actively sought to establish positions on which the states can agree in order to promote uniformity. The new special railroad regulation is a direct result of that committee's work.

Committee work requires much effort by state personnel. The results are worth the trouble as they promote improved tax administration and reduce the taxpayer compliance problems.

Gas & Oil Royalties and Severance Tax (GORST) Task Force

At the annual meeting, Utah Tax Commissioner Robert Bowen presented a paper on behalf of David Duncan, Chairman of that Commission. The paper expressed concern that the states might not be receiving all of the oil and gas royalties and severance taxes to which they are entitled. It suggested that the states act cooperatively through the MTC to investigate the situation, to make recommendations, and to establish whatever continuing joint effort might be recommended.

In pursuit of the suggestion, the Commission organized a meeting in September at Santa Fe, New Mexico. There it was decided to establish a task force to do the things suggested in Mr. Bowen's speech. It will consist of five members initially. Three will be representatives of the states of Louisiana, New Mexico and Texas. One will represent larger oil companies; and one will represent independent producers. The first three have already been appointed. Appointments of the industry representatives are pending.

With the establishment of the Task Force, the MTC is poised to embark upon an additional field of activity.

Conclusion

Freed of most of the litigation impediments which it has experienced during the past decade, the Commission has recently gained substantial momentum toward its goals. Though much remains to be done, the Commission is now better equipped to do it than has ever been the case before. This is the sign of a healthy and successful organization. The increasing support which it is receiving provides ample evidence that its future is bright.

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 Stradford, 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 was an assistant attorney general in Michigan's Treasury Department before becoming the Multistate Tax Commission's General Counsel in 1975. His first MTC 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 in both federal and state courts at all levels throughout the land. He had also been of counsel to numerous state legal staffs in regard to a variety of state and local tax matters.

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 corporate family as chief tax officer of Polygram Corporation, a position which he held for six years. He has served on tax committees with the New York State Society of CPA's and has written articles for the CPA Journal.

Committees

Budget Committee

Douglas Bell, Chairman (California)
Alan Charnes (Colorado)
George Weber (Oregon)

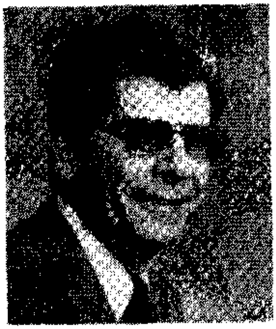
Audit Committee

Oscar Quoidbach, Chairman (Oregon)
Larry Crawford (Texas)
Robert Summers (California)
Frank Beckwith (Colorado)
Thomas Sheridan (Kansas)

Uniformity Committee

Horace Gailey, Chairman (Utah)
Tom Sheridan (Kansas)
Tomotaru Ogai (Hawaii)
Kendall Kinyon (California)
J.K. Hartley (Missouri)
Fred Lynch (Michigan)
Everett Leath (Arkansas)
Joseph Donahue (Alaska)
Ted V. Middle (Colorado)
Frank Medlin (Idaho)
Jerry Foster (Montana)
Jack Sexton (Nebraska)
Manny Gallegos (New Mexico)
Oscar Quoidbach (Oregon)
Harold Aldinger (North Dakota)
John L. Decker (Nebraska)

Multitate Tax Commission Officers*



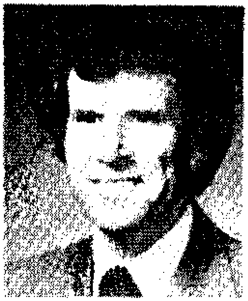
Robyn Godwin
Chairman

Kent Conrad
Vice Chairman

Michael Lennen
Treasurer

Executive Committee Members

Bob Bullock



Larry Looney

Fred Muniz

Herschel Rose

Ex Officio Member of Executive Committee
Former Commission Chairmen

Alan N. Charnes

Gerald Goldberg

*The three officers are also members of the Executive Committee. Terms of the above officers and committee members end at the annual meeting in 1982

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11/1/81

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

**MTC Chairman 1980-1981

***MTC Chairman 1979-1980

Tax Administrators— Associate Member States

11/1/81

The Commission has made provisions 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 but which have, through legislative enactment, made effective adoption of the Compact dependent upon a subsequent condition or have, through their Governor or through a statutorily 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.

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Report of Certified Public Accountants

RHODE, SCRIPTER & ASSOCIATES

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Multistate Tax Commission
Boulder, Colorado

We have examined the balance sheet of Multistate Tax Commission at June 30, 1981 and 1980, and the related statements of revenue and expenses, changes in fund balances and changes in financial position for the years 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, 1981 and 1980, 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 basis consistent with that of the preceding year.

Rhode Scripter & Associates

August 10, 1981

MULTISTATE TAX COMMISSION

BALANCE SHEET
As of June 30, 1981 and 1980

ASSETS

	1981	1980
CURRENT ASSETS		
Cash	$ 160,755	$ 45,057
Accounts receivable--members	18,954	26,247
Accrued interest receivable	1,146	---
Prepaid expenses	120	2,897
Net investment in sales type lease--Current portion--Note 3	4,349	---
TOTAL CURRENT ASSETS	185,324	74,201
PROPERTY AND EQUIPMENT--Note 1		
Office furniture and equipment	66,227	71,052
Leased property under capital leases--Note 2	14,540	123,540
Leasehold improvements	2,633	3,562
	83,400	198,154
Less: Accumulated depreciation and amortization	40,708	57,057
TOTAL PROPERTY AND EQUIPMENT	42,692	141,097
OTHER ASSETS		
Expense account advances	4,799	4,400
Deposits	1,696	1,626
Prepaid and unamortized past service pension costs--Note 4	6,132	6,130
Net investment in sales-type lease--Long-term portion--Note 3	30,536	---
TOTAL OTHER ASSETS	43,163	12,156
TOTAL ASSETS	$ 271,179	$ 227,454

LIABILITIES AND FUND BALANCE

	1981	1980
CURRENT LIABILITIES		
Accounts payable	$ 11,318	$ 11,965
Payroll taxes payable	5,808	4,778
Accrued pension plan--Note 4	---	3,448
Assessments and audit reimbursements collected in advance	---	26,529
Current portion of long-term debt	30,390	25,028
TOTAL CURRENT LIABILITIES	47,516	71,748
LONG-TERM DEBT		
Obligations under capital leases--Note 2	88,350	108,574
Note payable--Note 5	10,784	14,809
	99,134	123,383
Less: Current portion	30,390	25,028
TOTAL LONG-TERM DEBT	68,744	98,355
FUND BALANCE--Exhibit B		
Unappropriated fund balance	154,919	57,351
TOTAL FUND BALANCE	154,919	57,351
TOTAL LIABILITIES AND FUND BALANCE	$ 271,179	$ 227,454

See accompanying notes to financial statements.

MULTISTATE TAX COMMISSION

STATEMENT OF CHANGES IN FUND BALANCE
For the years ended June 30, 1981 and 1980

	1981	1980
FUND BALANCE--Beginning of year	$ 57,351	$ 64,660
Excess (deficiency) of revenue over expenses--Exhibit C	97,568	(7,309)
FUND BALANCE--End of year	$ 154,919	$ 57,351

See accompanying notes to financial statements.

Exhibit C

MULTISTATE TAX COMMISSION

STATEMENT OF REVENUE AND EXPENSES
For the years ended June 30, 1981 and 1980

	1981	1980
REVENUE		
Assessments	$ 934,720	$ 952,935
Interest	25,079	10,025
Other revenue:		
Legal administrative	68,373	---
Miscellaneous	2,896	2,172
TOTAL REVENUE	1,031,068	965,132
EXPENSES		
Accounting	7,150	7,844
Bonds and insurance	4,087	1,824
Consulting fees	54,814	48,155
Depreciation and amortization	46,449	38,632
EDP supplies	586	9,825
EDP terminal lease expense	18,676	34,307
Employee group insurance	21,521	28,721
Interest expense	19,814	23,602
Legal and legal support	16,241	17,488
Miscellaneous expense	3,823	2,739
Office supplies	3,113	7,197
Pension plan and retirement provision	63,638	73,949
Postage	5,881	6,603
Printing and duplicating	15,114	14,387
Publications	3,215	3,292
Rent	55,412	49,315
Repairs and maintenance	9,637	5,389
Salaries	464,577	502,652
Telephone	23,042	24,810
Travel	66,086	68,301
Utilities	3,312	3,409
TOTAL EXPENSES	906,188	972,441
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE LOSS	124,880	(7,309)
LOSS ON SALE OF LEASED PROPERTY--Note 3	27,312	---
NET EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 97,568	$ (7,309)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 1981

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.

(a) Method of Accounting

The Commission follows 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 which range from 3 to 8 years. Amortization of leasehold improvements is provided for on the straight-line basis over the term of the lease.

NOTE 2 - CAPITALIZED LEASES

Two equipment leases have been recorded as capital leases in accordance with Financial Accounting Standards Board Statement No. 13. The gross amount of the capitalized leases and the accumulated depreciation thereon is included in the Property and Equipment section of the Balance Sheet. Depreciation of $32,580 is included as depreciation expense in the Statement of Revenue and Expenses. The minimum lease payments shown below are exclusive of payments receivable on the sale of one of the capital leases. See Note 3 for further discussion.

At June 30, 1981, the future minimum lease payments under these leases were:

Fiscal Year Ended	Minimum Lease Payment
June 30, 1982	$ 39,258
June 30, 1983	36,642
June 30, 1984	34,026
June 30, 1985	2,836
June 30, 1986	---
	$112,762

Exhibit D

MULTISTATE TAX COMMISSION

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the years ended June 30, 1981 and 1980

	1981	1980
SOURCES OF WORKING CAPITAL		
Operations:		
Excess (deficiency) revenue over expenses--Exhibit C	$ 97,568	$ (7,309)
Add: Charges not requiring the use of working capital:		
Depreciation and amortization	46,449	38,632
Pension plan past-service costs paid in prior years and expensed currently	---	1,524
Net book value of furniture and equipment sold	8,743	1,949
Net book value of capital lease sold	54,341	---
Total From Operations	207,101	34,796
Proceeds from equipment purchased under capital lease	---	109,000
Decrease in expense account advances	---	800
TOTAL SOURCES OF WORKING CAPITAL	207,101	144,596
USES OF WORKING CAPITAL		
Investment in sales-type lease	30,536	---
Purchase of furniture and equipment	11,128	15,565
Acquisition of leased equipment under capital lease	---	109,000
Purchase of leasehold improvements	---	1,452
Payments of long-term obligations	28,785	17,625
Increase in deposits	70	120
Increase in current portion of long-term obligations	---	15,766
Increase in expense account advances	399	---
Increase in prepaid pension costs	2	---
TOTAL USES OF WORKING CAPITAL	70,920	159,528
INCREASE (DECREASE) IN WORKING CAPITAL	$ 136,181	$ (14,932)
CHANGES IN COMPONENTS OF WORKING CAPITAL--		
Increase (Decrease)		
Cash	$ 115,698	$ (41,315)
Accrued interest receivable	1,146	---
Accounts receivable--members	(7,293)	26,247
Current portion of investment in sales--type lease	4,349	---
Prepaid pension plan	2	(675)
Prepaid expenses	(1,953)	2,897
Accounts payable	647	8,253
Payroll taxes payable	(1,030)	686
Accrued pension plan	3,448	(3,448)
Assessments and audit reimbursements collected in advance	26,529	8,189
Current portion of long-term obligations	(5,362)	(15,766)
INCREASE (DECREASE) IN WORKING CAPITAL	$ 136,181	$ (14,932)

See accompanying notes to financial statements.

NOTE 3 - NET INVESTMENT IN SALES-TYPE LEASE

During the year, the Commission sold property relating to a previously capitalized lease for computer hardware. This sublease has been recorded in accordance with Financial Accounting Standard Board Statement #13 as a sales-type lease.

Total minimum lease payments to be received	$53,310
Less: Unearned income	18,425
Net investment in sales type lease	$34,885

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 $63,638, which includes amortization of prior service costs over 10 years. The Commission's policy is to fund pension cost accrued. The actuarially computed value of vested benefits as of June 30, 1981, is fully funded. The plan benefits and plan net assets are presented below:

ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT JUNE 30, 1981:

Vested	$149,944
Nonvested	18,472
	$168,416
MARKET VALUE OF NET ASSETS AVAILABLE FOR BENEFITS AT JUNE 30, 1981	$363,587

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

NOTE 5 - NOTE PAYABLE

	Balance June 30, 1981
Manufacturer--6% installment note, collateralized by related equipment, payable in monthly installments of $400, including interest, with final payment due November 12, 1983.	$ 11,610

NOTE 6 - 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 at Boulder:

Fiscal Year Ended	Minimum Annual Rental
June 30, 1982	$ 48,225
June 30, 1983	29,917
June 30, 1984	26,610
June 30, 1985	28,266
	$133,018

The Boulder facilities lease includes certain escalation charges based on various factors including wage index, utility and property tax increases from a base year.

NOTE 7 - 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.