EXHIBIT F-2

Tax Triggers and Phase-ins

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Putting Reforms Together

- Last month, I presented a number of options, including what I described as “package #4.”
- Package #4 includes a variety of reforms:
  - Adopting the first part of the DFA plan.
  - Moving to SSF/Repealing the throwback rule.
  - Expanding NOLs
  - Lowering the corporate income tax rate
  - Adopting available revenue increases
  - Adopting the second part of the DFA plan.

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Package #4 Costs

Package #4	
2/4/5.9/6.5 Phase One	($94,827,469)
Throwback/SSF Combined	($57,221,479)
Net Operating Losses	$0
Corporate Rate Cut	($38,700,000)
Total	**($190,748,948)**
Revenue Increases	$31,779,634
Net Cost	**($158,969,314)**
Phase Two	($96,907,004)
Net Cost	**($255,876,318)**

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Package #4 Improves the State's Tax Climate

2019 State Business Tax Climate Index			
	2019	Package 4	Change
Overall	46	42	4
Corporate	40	28	12
Individual	40	36	4
Sales	44	44	0
UI	34	34	0
Property	26	26	0

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Managing Revenue Losses

- Package #4, however, exceeds the task force's stated goal of $200 million in net tax cuts.
- The task force can consider a phase-in or tax trigger to mitigate the revenue loss.

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Managing Revenue Losses

- Benefits of a phase-in approach compared to tax trigger:
  - Predictable
  - No additional changes are required
- Downside of a phase-in approach compared to a tax trigger:
  - Lose some flexibility during an economic downturn

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Managing Revenue Losses

- In general, I prefer tax triggers.
- However, given that only one change needs to be implemented, a phase-in approach is sufficient.
- I would decrease the 6.5 percent rate to 5.9 percent in tranches over the next several budgets, in $50 million changes.
  - In 2019, enact everything in package #3
  - In 2021, cut the 6.5 percent rate by $50 million (~6.25%)
  - In 2023, cut the rate to the final 5.9 percent.

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