At our last meeting, we indicated that Commissioners should provide requests to the staff of various tax reform proposals they would like to be scored and evaluated. A number of Commissioners have made such requests. The purpose of this memorandum is to outline the analysis requested of the staff and seek your further input.

Please bear in mind that there are numerous alternatives that could be incorporated as components of any model. These alternatives, as described below, are not intended to be all inclusive, but rather reflect various approaches that have been requested of the staff.

The staff has been asked to analyze and model the impact on revenue and distribution of various tax alternatives. The alternatives include the following:

**Personal and Corporate Income Tax ("PIT") ("CT")**
- Adjustments to existing PIT rates
- Adjustments to capital gains rates
- Adjustments to CT rates
- Apply various rates to adjusted gross income (no deductions)
- Apply various rates to adjusted gross income (deductions for interest on home mortgages; rents on primary residences and charitable contributions)
- Reduce PIT tax expenditures
- Reduce CT tax expenditures
- Introduce an investment tax credit (i.e., in-state capital equipment)

**Sales and Use Tax ("SUT")**
- Adjustments to the SUT rate
- Exempt business inputs
- Expand SUT to services
- Expand SUT to Internet transactions

**Property Tax**
- Expand the definition of "change in ownership" or "sale" for commercial property
- Impose a fee for recordation of real property to be dedicated to a Resources Agency
New taxes

- Net sales or net receipts tax
- Carbon tax - a tax at the refinery level on the production of gasoline, diesel fuel, and jet fuel at an equivalent of $20.00 per ton of carbon dioxide emissions

Given the complex nature of the modeling and the almost infinite number of permutations, staff will create a model version that incorporates the following characteristics:

1. Alternative levels of rate reductions and increases
2. A sales tax exemption for business purchases
3. Expand the existing SUT
4. Replace current SUT and CT with a business net receipts tax at the entity level.
5. Add a new carbon tax as a revenue source

In addition, the staff has been requested to model the impact of estimated tax revenues lost as a result of failure to pay use tax obligations.

I would appreciate your reviewing the above requests and letting Mark Ibele know if you would like to add any other analysis. Given our timeframe, I would appreciate your responding on or before May 6, 2009.

Best regards,

Gerald L. Parsky