TTC/EY Tax Reform Business Barometer

Views on the prospects for, and key aspects of, federal tax reform

May 2017

The Tax Council
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The Tax Council (TTC)/Ernst & Young LLP Tax Reform Business Barometer (the Barometer) assesses business tax professionals' views on the outlook for and key aspects of federal tax reform.[1] The Barometer tracks the views of business tax professionals as the US Congress debates and considers reform of the US tax system.

In addition to questions on tax reform, the May 2017 Barometer includes specific questions on the impact of the House Republican Blueprint for Tax Reform, and a possible plan to integrate the individual and corporate income taxes, which previously received some attention from the Republican staff of the Senate Finance Committee. This 14th Barometer tracks the views reported from May 12 through May 19, 2017.[2]

Key results

Prospects for federal tax reform

- A majority of those responding (62%) believe tax reform is likely to be enacted in 2017 or 2018 – on average, 26% of respondents believe tax reform will likely be enacted in 2017, while 36% believe tax reform will likely be enacted in 2018. In contrast, 48% of respondents in the January 2017 Barometer, on average, believed tax reform would likely be enacted in 2017, while 35% believed enactment would likely occur in 2018.
- Half of respondents gave passage of tax reform legislation at least a 50% chance in the House and at least a 23% chance in the Senate.
- Approximately 75% of respondents think reform will be comprehensive, similar to the 73% of respondents from the January 2017 Barometer.[3]

House Republican Blueprint for Tax Reform (the Blueprint)

- Expectations for release of statutory language for the Blueprint have tempered since the January 2017 Barometer, with 36% of May 2017 respondents believing statutory language will be released in September or October 2017 and 29% believing statutory language will be released in July or August 2017. In the January 2017 Barometer, half of respondents believed there was a 40% likelihood that statutory language would be released before the end of April 2017.
- If the border adjustment provision is not retained in the Blueprint, 39% of respondents expect a higher corporate income tax rate and 27% of respondents expect base erosion-type provisions similar to those proposed in Chairman Camp's 2014 tax reform plan as the most likely alternatives to replace the revenue that would have been generated by the border adjustment provision.

Tax reform proposal from the Senate Finance Committee

- May 2017 respondents generally believe the Senate Finance Committee will release a tax reform plan; only 21% believe the Chairman will release no plan at all.
- Respondents are split on what a potential tax reform plan from the Senate Finance Committee might look like: 38% believe the plan will be similar to the 2014 Camp tax plan, while 29% believe the committee will release a plan integrating individual and corporate taxes.

Modeling tax reform

- In general, organizations are taking steps to model various tax plans – 80% of respondents are modeling the impacts of proposed plans on their organization's federal tax liability, 58% are modeling the impacts on their organization's competitive positions in its industry and 54% are modeling the potential impacts on their organization's markets.

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[1] The TTC/EY Tax Reform Business Barometer defines tax reform as legislation that substantially broadens the tax base or changes the tax rate for either corporate or individual taxpayers.

[2] One hundred and eight leading US tax executives and practitioners completed the May 2017 Barometer. Results are based on an online survey conducted by Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) practice.

[3] Note that certain percentages presented in the Barometer may not total 100% due to rounding.

- Organizations are primarily focused on modeling the potential impacts of the House Blueprint model – most respondents (77%) are modeling the impacts of the Blueprint on their organization's federal tax liability, competitive market positions or markets.

Prospects for federal tax reform

The May 2017 Barometer included the standard set of questions included in prior Barometers on the expectations for federal tax reform.

Expectations for year of enactment

In every Barometer since February 2014, a plurality of respondents has consistently viewed 2017, the first year of a new administration's term, as the most likely year for enacting federal tax reform. Although a plurality in the May 2017 Barometer views 2018 as the most likely year for enacting tax reform, abundant optimism remains that tax reform enactment will occur this year or next.

- A majority of respondents (62%) think tax reform will likely be enacted in either 2017 or 2018, which is somewhat lower than the 83% of respondents in the January 2017 Barometer who thought tax reform would be enacted in either year.
- Fewer respondents (14%) think tax reform is likely to be enacted in 2019. Similarly, only 4% of respondents think tax reform is likely in 2020, and only 5% of respondents think tax reform enactment is likely in 2021. Somewhat more respondents (16%) think tax reform is not likely to be enacted in the next five years (from 2017 to 2021).

Business tax professionals' average expectations for year of tax reform enactment

	Expected year of tax reform enactment								
Date of Barometer	2014	2015	2016	2017	2018	2019	2020	2021	No reform in 5 years
May 2017	NA	NA	NA	26%	36%	14%	4%	5%	16%
January 2017	NA	NA	NA	48%	35%	7%	2%	2%	6%
January 2016	NA	NA	4%	31%	26%	15%	6%	NA	18%
September 2015	NA	3%	6%	28%	26%	16%	NA	NA	21%
June 2015	NA	4%	6%	31%	26%	13%	NA	NA	20%
January 2015	NA	9%	10%	33%	21%	9%	NA	NA	17%
October 2014	1%	14%	14%	27%	19%	NA	NA	NA	26%
March 2014	1%	17%	14%	28%	16%	NA	NA	NA	24%
February 2014	5%	18%	15%	24%	15%	NA	NA	NA	23%
December 2013	9%	24%	15%	21%	11%	NA	NA	NA	20%
November 2013	20%	23%	13%	18%	11%	NA	NA	NA	15%

Note: Percentages may not sum to 100 due to rounding.

Expectations for action in the House and Senate

The January 2017 Barometer reflected increased expectations for the release of tax reform plans by House and Senate tax committees and passage by both chambers. Although the May 2017 Barometer suggests that respondents have tempered their expectations for progress on tax reform somewhat since January 2017, the expectations are still positive compared with previous years.

Action in the House in 2017

- In May 2017, half of respondents think there is at least an 80% chance that the House Ways and Means Committee Chairman will release a specific tax reform plan before the end of 2017, compared with 95% in the January Barometer.

- Half of May 2017 respondents think the probability that the Ways and Means Committee will begin marking up tax reform legislation is at least 70%, down from 90% in January. Half of respondents think there is at least a 58% probability that the committee will report out a tax reform plan and at least a 50% likelihood that the full House of Representatives will pass the plan during 2017.

Action in the Senate in 2017

- Although respondents think a tax reform plan is more likely to move forward in the House than in the Senate, half of all May 2017 Barometer respondents still believe there is at least a 50% chance that the Senate Committee Chairman will release a specific tax reform plan before the end of 2017.
- Expectations for Senate passage of tax reform have decreased during the past several months, with half of May 2017 respondents giving tax reform a 23% chance of passing compared with a 50% likelihood given by half of January 2017 respondents.

As shown in the following table, which also includes the results from the January 2016 Barometer, respondents are significantly more optimistic for action by Congress now than in January 2016.

Business tax professionals' median expectations for tax reform action by the end of the year

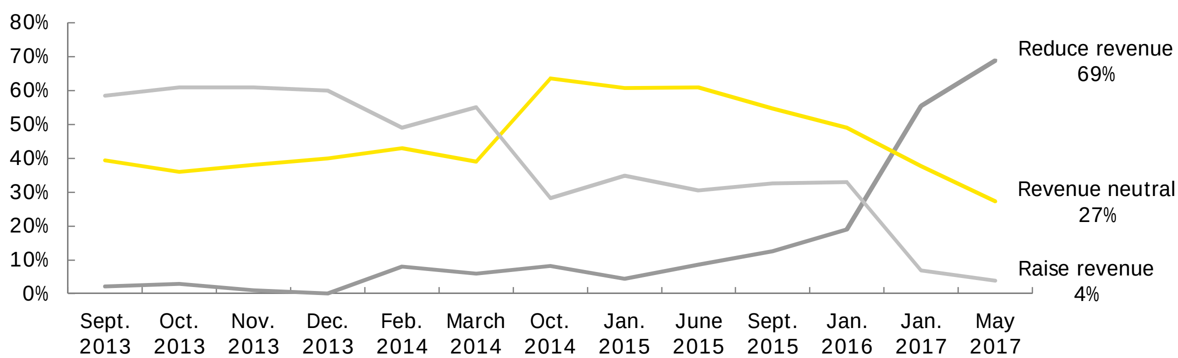
	House			Senate		
	May 2017	Jan 2017	Jan 2016	May 2017	Jan 2017	Jan 2016
Tax-writing committee chairman releases tax reform plan	80%	95%	50%	50%	60%	25%
Tax-writing committee begins markup of tax reform legislation	70%	90%	20%	45%	60%	10%
Tax-writing committee approves tax reform legislation	58%	85%	10%	30%	51%	5%
Chamber passes tax reform legislation	50%	75%	5%	23%	50%	0%

Expectations for the comprehensiveness of tax reform

Like other Barometers, the May 2017 Barometer asked whether tax reform would be comprehensive or targeted (e.g., international, corporate, business-only). The May 2017 results reflect an increasing belief that tax reform will be comprehensive. Like 73% of January 2017 respondents, 75% of May 2017 respondents believe tax reform will be comprehensive. The percentage of respondents believing tax reform would be targeted decreased, with only 12% of May 2017 respondents expecting business-only reform (i.e., C corporations and pass-through businesses) compared to 17% of January 2017 respondents. Similarly, only 10% of May 2017 respondents expected corporate-only reform, with 2% expecting international-only tax reform and 1% expecting individual-only reform.

Additionally, tax professionals have shifted their views on how reform will be financed, with a majority now expecting the reform to be deficit-financed. Sixty-nine percent of May 2017 respondents believe tax reform is more likely to reduce revenue to the federal government. Only 4% think tax reform will raise revenue, while 27% think reform will be revenue-neutral. As shown in the following chart, views gradually shifted from September 2013 through January 2016, with a more significant shift during the past year.

Trend of business tax professionals' beliefs on tax reform features, Sept. 2013 to May 2017



House Republican Blueprint for Tax Reform

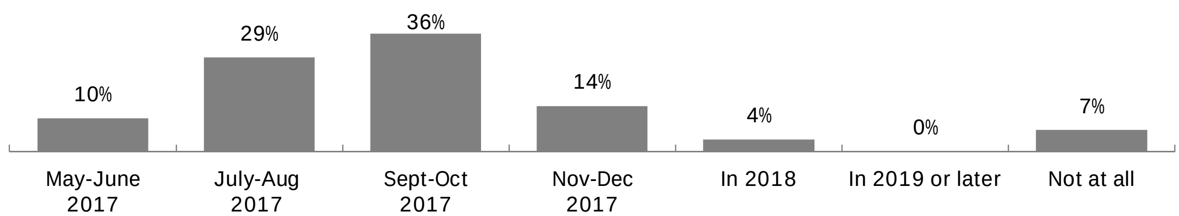
The May 2017 Barometer included questions on the House Republican Blueprint for Tax Reform (the Blueprint). The Blueprint, released in June 2016, received significant attention during the past year as the only reform plan with sufficient details to give a clear sense of its objectives. The Blueprint would shift the current US income tax toward a consumption-based tax system with significant reductions in the tax on savings and investment by allowing companies to expense all new investment (i.e., equipment, structures and inventories) and lowering the top effective tax rate on returns received by individual investors as interest, dividends and capital gains to 16.5%.

The Blueprint would also limit the deduction for interest expenses to a taxpayer's interest income (i.e., disallow the deductibility of net interest expenses), eliminate special business provisions except for the research and experimentation (R&E) tax credit and last-in, first-out (LIFO) inventory accounting, reduce the corporate tax rate to 20%, and reduce the tax rate for certain income received by owners of pass-through businesses to 25%. The Blueprint also proposes border adjustments that would exclude exports from the tax base and include imports in the tax base. The border adjustments, which are similar to those included as part of most countries' value-added taxes, would transform the current origin-based tax on US production into a destination-based tax on domestic consumption.

Expectation for timing of statutory language for the Blueprint

Thirty-six percent of respondents believe that statutory language for the Blueprint will be released in September or October 2017. Many respondents (29%) expect statutory language to be released earlier, in July or August 2017. Nearly all respondents believe that statutory language will be released in 2018 or earlier, with only 7% believing statutory language will never be released.

Expectations for the timing of the release of statutory language



Will changes in currency values offset the effects of border adjustments?

Perceptions about whether changes in international price levels (which could occur through changes in exchange rates, repegging of currencies) would offset the impact of the border adjustments have not changed since the January 2017 Barometer.

- A majority of respondents (64%) believe that the impact of border adjustments will be somewhat offset by changes in international price levels, compared with 63% who believed the same in January 2017.
- Only 9% believe that the impact will not be offset at all (10% in January 2017), while 23% and 4% believe the impact will be offset mostly and entirely respectively, which holds constant with the January 2017 results.

What could replace the revenue from border adjustments?

It has been reported that the border adjustment provision in the House Blueprint would raise roughly $1 trillion in revenue over the 10-year budget window. If the border adjustment provision is eliminated as tax reform moves forward, 39% of respondents believe that this revenue would most likely be replaced with a higher corporate income tax rate than the 20% corporate income tax rate proposed by the Blueprint. Deficit finance is also seen as an option, with 26% of respondents thinking this approach could be used to replace border adjustment revenue. In addition, 27% of respondents believe that revenue could be raised through base erosion-type provisions similar to those proposed under the 2014 Camp tax plan.

A carbon tax or a conversion of deductible-type IRA, 401(k) and other tax-preferred accounts to Roth-type savings accounts is not seen as a particularly likely option, with only 3% of respondents believing either of these methods is the most likely replacement for border adjustments. A few respondents (5%) believe some other method of raising revenue will be used.

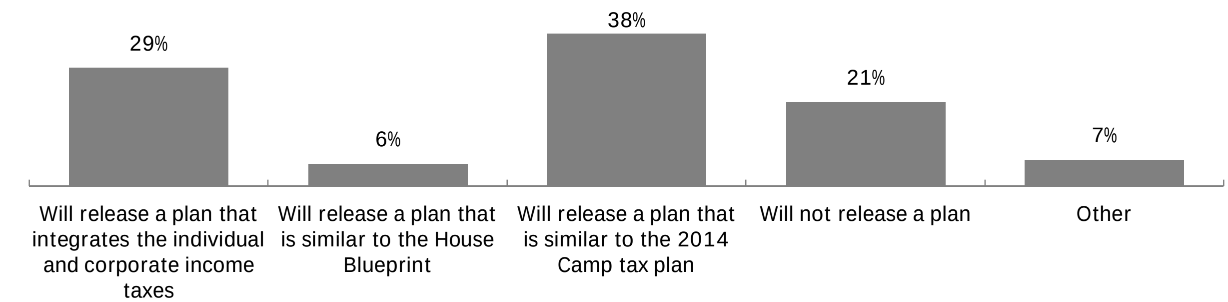
Integration of individual and corporate income taxes

May 2017 respondents were also asked about a possible discussion draft/proposal to integrate individual and corporate income taxes to address the double tax on corporate earnings. In December 2014, the Senate Finance Committee's Majority Staff released a report, *Comprehensive Tax Reform for 2015 and Beyond*, providing background on a wide range of issues related to tax reform. The report included a detailed discussion of the problems that arise in the US income tax system from the double tax on corporate earnings, which occurs when corporate earnings are taxed first at the corporate level and again when distributed to individual investors. The report outlined various approaches to address the double tax by integrating individual and corporate income taxes.

Expectation for direction of tax reform by Senate Finance Committee Chairman

When asked for their thoughts on the most likely direction of the Senate Finance Committee Chairman in preparing a tax reform plan, 38% of respondents believed that the Chairman will likely release a plan similar to Camp's 2014 tax plan. Many respondents (29%) believe that the Chairman will likely release a plan integrating individual and corporate taxes, while a similar percentage (21%) believe no plan will be released at all.

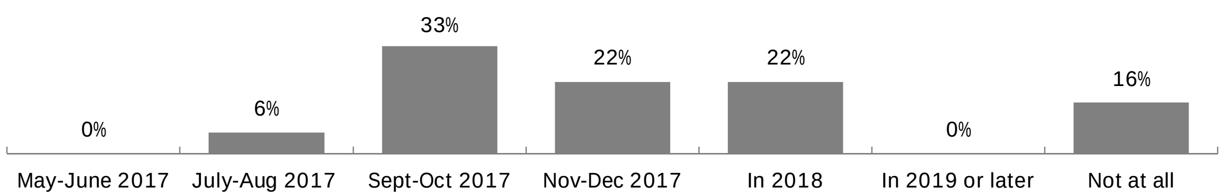
Expectations for the direction of tax reform in the Senate



Expectation for timing of tax reform proposal by Senate Finance Committee Chairman

The May 2017 Barometer included a new question to better understand views on when the Senate Finance Committee Chairman might release a non-integration tax reform plan. As shown in the following chart, most respondents view the fall of 2017 as the likely timing for release of a non-integration tax reform plan by the Chairman of the Senate Finance Committee.

Expectations for the timing of the release of tax reform proposal

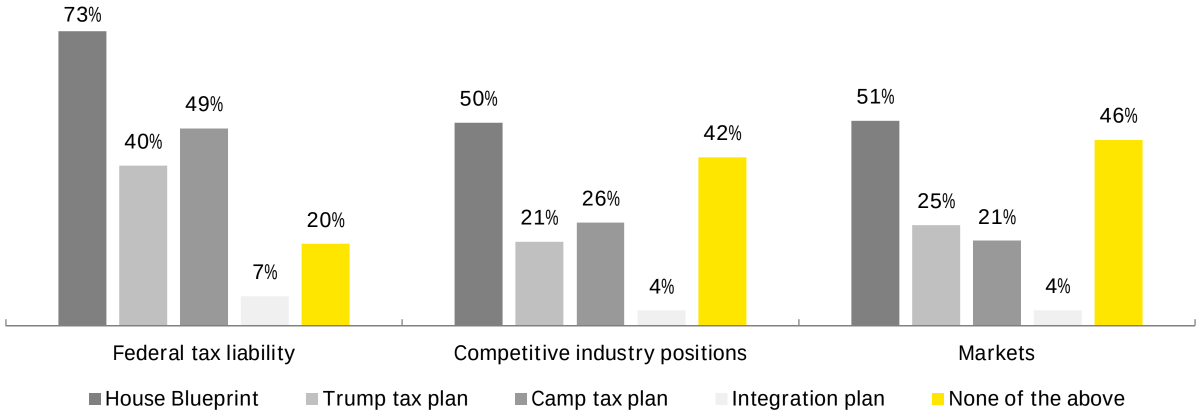


Modeling tax reform

Almost all respondents (80%) indicated their organization is performing or has performed some modeling of the potential impacts of tax reform on their organization's (or members'/clients') federal tax liability. Of these respondents, most (92%) have modeled the impacts of the Blueprint, while only 62% and 50% have modeled the impacts of the Camp and Trump tax plans, respectively. Only 9% of respondents participating in modeling their organization's federal tax liability indicated they have modeled an integration plan.

Almost two-thirds (58%) reported their organization has modeled the impacts of at least one tax reform plan on their organization's competitive positions in its industry, while 54% reported that their organization has modeled the potential impact of at least one plan on its markets. Nearly all respondents modeling the potential impact on their organization's markets (95%) modeled the Blueprint.

Modeling aspects of various tax reform proposals



About The Tax Council and Ernst & Young LLP

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