

TTC/EY Tax Reform Business Barometer

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

June 2015



The Tax Council (TTC)/Ernst & Young LLP Tax Reform Business Barometer assesses business tax professionals' current views on the prospects for and key aspects of federal tax reform.¹ The Barometer measures the expected likelihood of the different stages and key elements of federal tax reform. It tracks trends in the views of business tax professionals as the U.S. Congress debates and develops tax reform. Additionally, the June 2015 Barometer included questions addressing the TPA trade agreements, the OECD BEPS project, and expiring business tax provisions. This is the ninth Barometer; it tracks the views reported between June 16 and June 25, 2015.²

Key results

- ▶ Respondents continue to believe that tax reform will occur within the next several years (67% likelihood that tax reform will happen in 2018 or earlier). Respondents gave a 41% likelihood that tax reform will happen in 2017 or earlier, and they believe 2017 is the most likely year for tax reform with a 31% likelihood. In the January 2015 Barometer, respondents gave a 52% likelihood that tax reform would happen in 2017 or earlier.
- ▶ Business tax professionals view businesses-only or international-only tax reform as more likely than a comprehensive reform affecting both individual and corporate taxation. Sixteen percent of respondents think tax reform will affect only corporations, all businesses including pass-throughs (22%), or international (22%), while 40% think reform will be comprehensive. In the January 2015 Barometer, which did not include the option for an international only reform, 12% and 47% of respondents thought tax reform would affect only corporations or all businesses including pass-throughs, respectively, while 40% thought reform would be comprehensive.
- ▶ Most respondents (61%) expect tax reform will be revenue-neutral, rather than raise revenue, 30% believe it will raise revenue, and 9% think it will reduce revenue. While this finding is consistent with the January 2015 and October 2014 Barometers, it represents a significant shift from most prior Barometers whereby 50% to 60% of respondents generally thought tax reform would raise revenue.
- ▶ Respondents gave a median expectation of 25% that the House Ways and Means Committee chairman will release a specific tax reform plan by the end of 2015, down from a 50% median likelihood in the January 2015 Barometer. Tax professionals provided medians of 10% and 1% that the Ways and Means Committee will mark-up tax reform legislation and that Ways and Means Committee will pass this legislation, respectively, and respondents gave a 0% median likelihood that the House will pass tax reform legislation.
- ▶ Respondents thought it almost equally likely (20% median likelihood) that the Senate Finance Committee chairman will release a specific tax reform plan by the end of 2015. They also have an equal expectation (0% median likelihood) that the full Senate will pass tax reform legislation by the end of 2015.
- ▶ Barometer participants generally thought (80%) that the passage of Trade Promotion Authority (TPA) by Congress would not make tax reform more likely. Respondents gave a 72% likelihood that the Trans-Pacific Partnership (TPP) trade agreement will happen in 2017 or earlier, and they believe 2015 and 2016 are the most likely years for the TPP to be enacted with a 28% likelihood.

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 Eighty four leading U.S. tax executives and practitioners completed this month's Barometer. Results are based on an online survey conducted by Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) practice.

Respondents thought it less likely (60% likelihood) that the Transatlantic Trade and Investment Partnership (TTIP) will be enacted in 2017 or earlier, with most respondents believing 2017 to be the most likely year with a 24% likelihood.

- ▶ Respondents think the OECD Base Erosion and Profit Shifting (BEPS) project will result in the most significant change in global income taxation in the year 2017 (35% median response) as compared to 2015 (5% median expectation), 2016 (20% median expectation), 2018 (25% median expectation), or not at all (25% median expectation).
- ▶ Fifty-four percent of business professionals believe that tax revenues will be raised for the Highway Trust Fund and related infrastructure spending. Respondents indicated that funding is most likely thought to be provided by miscellaneous measures (50%) or an increase in gas tax (20%).
- ▶ At the end of last year, Congress enacted a one year extension of the expiring business tax provisions through the end of 2014. Respondents were asked the likelihood that the major expiring tax provisions will be extended again; Respondents found it more likely (69% average response) that the tax provisions will be extended in the second half of 2015 than in the first half of 2015 (9% average response). Others anticipate extensions occurring in 2016 or later, or not at all (average responses of 19% and 4%, respectively).

Prospects and timing of federal tax reform

The June 2015 Barometer assesses business tax professionals' views on the likelihood of tax reform, the TPA trade agreement, the OECD BEPS project, and expiring business tax provisions. The median response was a 25% likelihood that the incoming Ways and Means Committee chairman will release a specific tax reform plan before the end of next year, down from an 50% median likelihood reported in the January 2015 Barometer. The median expectation for a Ways and Means Committee mark-up of tax reform legislation is 10%, while the median expectation for the committee to pass this legislation is 1%. Respondents were even less optimistic regarding whether the full House of Representatives would approve tax reform legislation (median 0% expectation).

Barometer respondents believe that the Senate is almost equally likely to release a specific tax reform plan as the House. They gave a median expectation of 20% that the Senate Finance Committee chairman would release a tax reform plan, down from 50% reported in the January 2015 Barometer, and a median expectation of 9% that the committee would begin a mark-up. Responses indicated the likelihood for passage through the committee and the full Senate is the same (median 0% expectation).

Business tax professionals' median expectations for tax reform action by the end of 2015

	House	Senate
Tax-writing committee chairman releases tax reform plan	25%	20%
Tax-writing committee begins mark-up of tax reform legislation	10%	9%
Tax-writing committee approves tax reform legislation	1%	0%
Chamber passes tax reform legislation	0%	0%

Business tax professionals gave a 4% average likelihood of tax reform occurring in 2015. Even without enactment within the next year or two, various foundational steps (e.g., hearings, debates, chairmen's drafts, committee legislation, additional proposals) can be expected to continue and will influence any future tax reform.

Barometer trends suggest that federal tax reform is not generally expected prior to 2017, the first year of the next president's term. Respondents gave a 6% likelihood that tax reform will happen in 2016, a 31% likelihood 2017, a 26% likelihood in 2018, and a 13% likelihood in 2019. The respondents have decreased their expectation of no federal tax reform in the foreseeable future from 26% from the Barometer in October 2014 to 20% in the June 2015 Barometer.

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

Expected year of tax reform enactment	2014	2015	2016	2017	2018	No reform in 5 years
June 2015	NA	4%	6%	31%	26%	20%
January 2015	NA	9%	10%	33%	21%	17%
October 2014	1%	14%	14%	27%	19%	26%
March 2014	1%	17%	14%	28%	16%	24%
February 2014	5%	18%	15%	24%	15%	23%
December 2013	9%	24%	15%	21%	11%	20%
November 2013	20%	23%	13%	18%	11%	15%

Respondents were also asked about the passage of TPA. Eighty percent of respondents indicated that the passage of TPA by the Congress would not make tax reform more likely. Respondents found it equally likely (28% average response) that the TPP trade agreement will be enacted in 2015 or 2016. Others anticipate the enactment in 2017 (16% average response), 2018 (9% average response), 2019 (6% average response), or not at all (11% average response).

Respondents gave similar responses when asked about the likelihood that the TTIP will be enacted in the next few years, with most believing 2017 to be the most likely year for enactment with a 24% average likelihood.

Business tax professionals' average expectations for timing of trade agreement enactment

Expected year of enactment	TPP	TTIP
2015	28%	14%
2016	28%	22%
2017	16%	24%
2018	9%	16%
2019	6%	9%
Not in the next 5 years	11%	15%

Key expectations for federal tax reform legislation

Respondents were asked what key features they expect to be in any eventual final tax reform legislation. Those expectations could differ significantly from their objectives for federal tax reform. Some of the key findings are:

- ▶ Most respondents (61%) expect tax reform will be revenue-neutral, rather than raise revenue, 30% believe it will raise revenue, and 9% think it will reduce revenue. While this finding is consistent with the October 2014 Barometer, it represents a significant shift from most prior Barometers whereby 50% to 60% of respondents generally thought tax reform would raise revenue.
- ▶ Business tax professionals view business-only or international-only tax reform as more likely than a comprehensive reform affecting both individual and corporate taxation. Sixteen percent of respondents think tax reform will affect only corporations, all businesses including pass-throughs (22%), or international (22%), while 40% think reform will be comprehensive. In the January 2015 Barometer, which did not include the option for an international only reform, 12% and 47% of respondents thought tax reform would affect only corporations or all businesses including pass-throughs, respectively, while 41% thought reform would be comprehensive.

Business tax professionals' views on the BEPS project and expiring tax provisions

The June Barometer included questions on the OECD BEPS project and expiring business tax provisions.

Respondents were asked about the likelihood that the OECD Base Erosion and Profit Shifting (BEPS) project will result in significant change in the taxation of global income of multinational corporations in the U.S. and/or abroad in the next several years. Respondents gave an average likelihood of 38% that significant change will occur in 2017. Although most respondents interpreted this question as which year was *most* likely to see significant change, it is also possible respondents interpreted the question as whether the BEPS project would lead to significant change in each of the years named. The professionals were then asked if the OECD BEPS recommendations at the end of 2015 will influence U.S. tax policy through a commitment on the part of the U.S. to adopt new rules in certain areas. Respondents were generally undecided on their views, although 49% think the U.S. will adopt new rules in Patent box/intellectual property box, and 48% think Subpart F will be influenced.

Respondents expecting the BEPS project to influence the U.S. to adopt new rules in certain areas

	Yes	No
Limiting the deductibility of interest	44%	56%
Patent box/IP box	49%	51%
Definition of permanent establishment/threshold for taxable nexus in a country	36%	64%
Subpart F	48%	53%

At the end of last year, Congress enacted a one year extension of the expiring business tax provisions through the end of 2014. Respondents were asked the likelihood that the major expiring tax provisions will be extended again; Respondents found it more likely (69% average response) that the tax

provisions will be extended in the second half of 2015 than in the first half of 2015 (9% average response). Others anticipate extensions occurring in 2016 or later, or not at all (average responses of 19% and 4%, respectively).

Other tax policy issues

Business tax professionals were also asked if Congress will raise tax revenues to provide additional funding for the Highway Trust Fund and related infrastructure spending. Fifty-four percent believe Congress will raise tax revenues, and 46% believe tax revenues will not be increased. Those who answered that they expected a raise were asked a follow-up question regarding funding means; 20% think an increase in gas tax would be the most likely way to provide funding, 11% believe funding will come from repatriation holiday, and 18% agree that international tax reform would provide funding. Fifty percent suggested other sources, such as miscellaneous compliance measures.

The prospects for federal tax reform and the expectations of leading U.S. tax executives and practitioners will probably continue to change throughout 2015. The Barometer will continue to gauge changes in the expectations for tax reform.

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