

# TTC/EY Tax Reform Business Barometer

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

January 2017



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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.<sup>1</sup> 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 January 2017 Barometer also included: more specific questions on the impact of the presidential election on tax reform; the House Republican Blueprint for Tax Reform; integration of individual and corporate income taxes; and possible funding of infrastructure spending legislation. This 13<sup>th</sup> edition of the Barometer tracked the views reported from January 13 through January 24, 2017.<sup>2</sup>

## Key results

### Prospects for federal tax reform

- Eighty-three percent of those surveyed believe tax reform is likely to occur in 2017 or 2018 (with 48% of all survey respondents believing 2017 is the most likely year).
- Half of respondents gave passage of tax reform legislation a 75% chance in the House and a 50% chance in the Senate.
  - Half of respondents gave release of tax reform legislation by the House Ways and Means Committee Chairman a 95% chance, and an 80% chance for approval by the Committee.
  - Half of respondents gave release of legislation by the Senate Finance Committee Chairman a 60% chance, and a 51% chance for approval by the Committee.
- Approximately 73% of respondents now think reform will be comprehensive, as compared to 45% of respondents from the January 2016 Barometer. About 17% think tax reform will only cover business taxes (i.e., will include both C-corporations and pass-through businesses), 9% think it will affect only C-corporations, and 1% think it will be international-only reform.<sup>3</sup>

### Impact of the presidential election

- All surveyed believe the election of Donald Trump as President has increased the prospects for US tax reform – 67% believe it makes tax reform significantly more likely and 33% believe it makes tax reform more likely.

### House Republican Blueprint for Tax Reform (the Blueprint)

- Statutory language for the Blueprint is expected soon, but not immediately. Respondents place a greater likelihood for statutory language being released in the first half of this year, than later in the year. The median respondent gave the likelihood of statutory language being released in either March/April 2017 or May /June 2017 a 30% likelihood, but only a 20% likelihood of being released in July through December 2017.
- Respondents gave chances that border adjustments will be retained in final legislation slightly more than even odds: 54% think there is a more than 50% chance they will be retained, while 46% believe there is a less than 50% chance they will be retained.

### Integration proposal from the Senate Finance Committee

- Those surveyed generally see a diminishing chance for release of a proposal to integrate individual and corporate income taxes in the Senate.
- Half of respondents gave the release of an integration proposal by the Chairman of the Senate Finance Committee a 50% chance.

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<sup>1</sup> 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.

<sup>2</sup> One hundred and one leading US tax executives and practitioners completed the January 2017 Barometer. Results are based on an online survey conducted by Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) practice.

<sup>3</sup> Note that certain percentages presented in the Barometer may not total 100% due to rounding.

# Prospects for federal tax reform

The January 2017 Barometer included the standard set of questions regarding expectations for federal tax reform, plus a question on the impact of the outcome of the presidential election.

All surveyed believe the election of Donald Trump as President has increased the prospects for US tax reform: 67% believe it makes tax reform significantly more likely and 33% believe it makes tax reform more likely. Respondents generally anticipate significant action and possible passage of tax reform proposals by the full House and Senate in this year or next: those surveyed gave an 83% chance that tax reform will be enacted in 2017 or 2018.

## *Expectations for year of enactment*

In every Barometer since February 2014, respondents have consistently viewed 2017, the first year of the new administration's term, as the most likely year for enactment of federal tax reform. In the January 2017 Barometer, the likelihood for enactment in either 2017 or 2018 increased significantly, relative to all prior Barometers, with a 48% likelihood for enactment of tax reform in 2017 and a 35% likelihood for enactment in 2018 – reflecting an 83% likelihood for enactment in either this year or the next. Respondents assigned a 7% likelihood for tax reform in 2019, a 2% likelihood in 2020 and a 2% likelihood in 2021. Respondents reported a 6% likelihood of there being no reform at all in the next five years (from 2017–2021).

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

Expected year of tax reform enactment	2014	2015	2016	2017	2018	2019	2020	2021	No reform in five
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*

A significant increase in expectations for not only the release of tax reform plans by the respective committee chairman, but passage by both the House and Senate, is reflected in the January 2017 Barometer. In January 2017, half of those surveyed believe there is at least a 95% chance that the House Ways and Means Committee Chairman will release a specific tax reform plan before the end of 2017. Half of respondents think the probability that the House Ways and Means Committee will begin a mark-up of tax reform legislation is at least 90%. Moreover, half of respondents think there is at least an 80% probability for Committee passage and at least a 75% likelihood for passage by the full House of Representatives during 2017.

While 2017 Barometer respondents were more likely to expect tax reform in the House as opposed to the Senate, half of all 2017 Barometer respondents still believe there is at least a 60% chance that the Senate Committee chairman will release a specific tax reform plan before the end of 2017. In fact, a full half of respondents believe there is a 50% probability for passage by the full Senate in 2017.

As shown in the table below, which compares the January 2017 and January 2016 Barometer results, those surveyed believe the prospects for action by the Congress, including passage by both the House and Senate, has risen significantly.

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

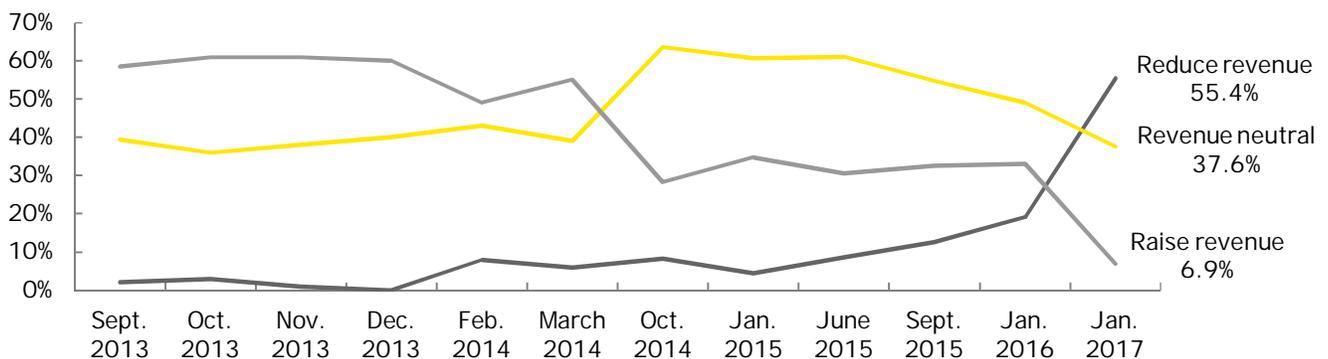
	2017		2016	
	House	Senate	House	Senate
Tax-writing committee chairman releases tax reform plan	95%	60%	50%	25%
Tax-writing committee begins mark-up of tax reform legislation	90%	60%	20%	10%
Tax-writing committee approves tax reform legislation	80%	51%	10%	5%
Chamber passes tax reform legislation	75%	50%	5%	0%

*Expectations regarding the scope of tax reform*

The tax reform debate has shifted over the past several years from a plan more narrowly focused on an international tax to corporate or business tax reform, to comprehensive reform that would also include broader changes to the individual income tax. The January 2017 Barometer again asked whether tax reform would be comprehensive or more focused on a business sector (e.g., international, corporate, all businesses). The results reflect a marked shift in expectations toward comprehensive reform, with 73% of respondents expecting comprehensive reform, 17% expecting business-only reform (i.e., C-corporations and pass-through businesses) and 9% expecting corporate-only reform. Only 1% indicated that they expected international-only tax reform and no one indicated that they expect reform will only affect individuals.

Additionally, tax professionals have also shifted their views on how reform will be financed, with more respondents now expecting that tax reform will be deficit financed. Fifty-five percent believe tax reform is more likely to reduce revenue to the federal government, while only 7% think tax reform will raise revenue and 38% think reform will be revenue neutral. As shown in the chart below, there was a gradual shift in views between September 2013 and January 2017, with a more significant shift during the past year.

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



# House Republican Blueprint for Tax Reform

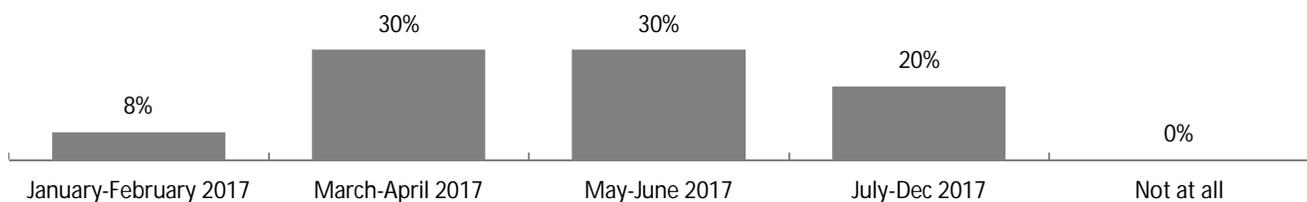
The January 2017 Barometer included questions on the House Republican Blueprint for Tax Reform (the Blueprint). The Blueprint, released in June 2016, is the only plan yet to be released and is therefore considered by many to be the framework from which tax reform legislation will take shape. Taken together, provisions in the Blueprint would shift the current US income tax toward a consumption-based tax system. The Blueprint would do this with significant reductions in the tax on savings and investment by allowing companies to expense all new investment (except land) (e.g., 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., disallowing any deduction for net interest expenses), eliminate most special business provisions except for the research and experimentation (R&E) tax credit and last-in, first-out (LIFO) inventory method, 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 export sales from the tax base and include the cost of imports in the tax base. The border adjustments, which are similar to those included as part of most countries' value-added taxes, would effectively 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 House Republican Blueprint for Tax Reform*

Statutory language for the Blueprint is expected soon, but not immediately. Respondents place a greater likelihood for statutory language being released in the first half of this year, than later in the year. The median respondent gave the likelihood of statutory language being released in either March/April 2017 or May /June 2017 a 30% likelihood, but only a 20% likelihood of being released in July through December 2017.

Median expectations for the timing of the release of statutory language



## *Border adjustments: eventual enactment as part of the House Blueprint?*

Those surveyed gave slightly better than even odds that border adjustments would be included as part of the House Blueprint, if enacted: 54% think there is a 50% or greater chance and 46% believe there is a less than 50% chance they are retained.

Seventy-eight percent of respondents indicated that individuals in their organization/company/advisors are providing input on border adjustment implementation issues.

## *Border adjustments: will their impact be offset by changes in currency values?*

About 27% of those surveyed believe that the impact of border adjustments would be mostly offset (23%) or fully offset (4%) by changes in the real price level between countries (where changes in exchange rates or the re-pegging of currencies would be the primary channels for adjustment). About 65% of those surveyed believe the impact of border adjustments would be only somewhat offset, and only 7% think the impact of the border adjustments would not be offset at all.

## *Modeling the Blueprint's impacts*

Almost all respondents (81%) indicated their organization is or has modeled the potential effect of the Blueprint on their organization's (or members'/clients') federal tax liability. More than half (57%) reported their organization is modeling the impact of the Blueprint on the competitive positions in their organization's industry tax plan, while 56% reported that their organization is modeling the potential impact on their organization's markets.

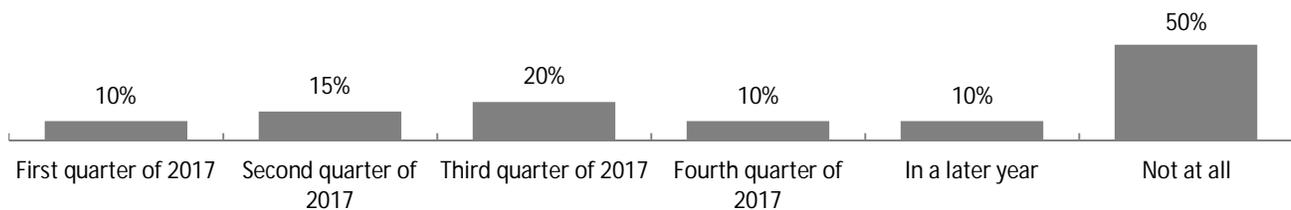
# Integration of individual and corporate income taxes

Respondents were also asked about a possible discussion draft/proposal to integrate the 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 from the double tax on corporate earnings, whereby corporate earnings are subject to tax at the corporate level and again when distributed to taxable investors. The report outlined various approaches to address the double tax through integration of the individual and corporate income taxes.

## *Expectation for timing of integration discussion draft or proposal by Senate Finance Committee Chairman*

It is unclear whether the Senate Finance Committee will develop a tax reform plan that includes integration. When asked for their expectation for when the Senate Finance Committee Chairman would release an integration discussion draft or proposal, half of respondents believe there is a 10% or less chance that it will be released in the first quarter of 2017. Half of respondents also believe there is a 50% chance that a release will not happen at all.

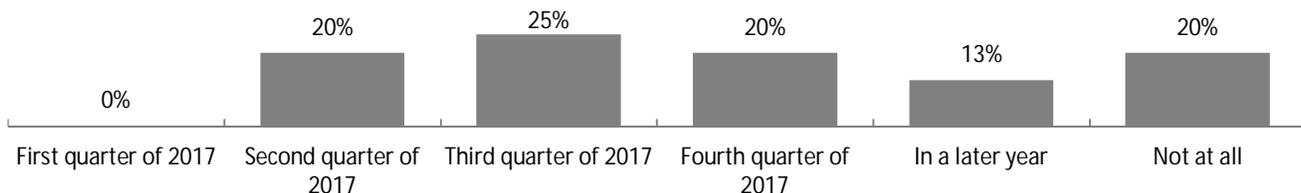
Median expectations for the timing of the release of an integration discussion draft or proposal



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

The January 2017 Barometer included a new question to better understand views on when a non-integration tax reform plan might be released by the Senate Finance Committee Chairman. As shown in the chart below, those surveyed appear to view the summer of 2017 as the most likely timing for release of a non-integration tax reform plan by the Senate Finance Committee Chairman.

Median expectations for the timing of the release of tax reform proposal



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