

TTC/EY Tax Reform Business Barometer

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

September 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 It tracks trends in the views of business tax professionals as the US Congress debates and develops tax reform. The Barometer reflects the views of the tax community on the outlook for tax reform.

In addition to questions on tax reform, the September 2015 Barometer also included questions on expiring business tax provisions, the funding of the Highway Trust Fund, the Organization for Economic Co-operation and Development's Base Erosion and Profit Shifting (OECD BEPS) project and the possibility of international-only tax reform. This 10th Barometer tracked the views reported from September 3 through September 11, 2015.²

Key results

- ▶ Respondents continue to believe that tax reform will occur within the next several years (63% likelihood that tax reform will happen in 2018 or earlier). However, this percentage has fallen slightly over the past year, with respondents giving a likelihood of 67% in June and 73% in January that tax reform will happen in 2018 or earlier.
- ▶ The September Barometer indicates that 2017 remains the most likely year for tax reform with respondents assigning a 28% likelihood – consistent with responses of a 31% likelihood in June and a 33% likelihood in January.
- ▶ Approximately 16% of respondents think tax reform will affect only corporations, 21% think it will include all businesses including pass-throughs, 19% think it will be international-only, and 45% think reform will be comprehensive.³ This is almost unchanged from the June 2015 Barometer, which reported that 16% of respondents thought tax reform would affect only corporations, 22% predicted that reform would involve all businesses including pass-throughs, and 40% thought reform would be comprehensive. No respondents expected tax reform to affect only individuals in the September, June or January Barometers.
- ▶ With regard to the recent interest in an international-only reform, 35% think the enactment of such reform will increase the likelihood of enactment of a more comprehensive tax reform at a later date, while 65% believe it will hinder eventual enactment of comprehensive tax reform.
- ▶ Most respondents (55%) expect tax reform will be revenue-neutral rather than raise revenue (33%), and 13% think it will reduce revenue. While this finding is consistent with the June 2015 and January 2015 Barometers, it represents a significant shift from earlier Barometers, in which 50% to 60% of respondents generally thought tax reform would raise revenue.
- ▶ The median expectation of respondents that the House Ways and Means Committee chairman will release a specific tax reform plan by the end of 2015 was 25% (i.e., the median response across the range of expectations given by respondents), the same result given in the June 2015 Barometer, but down from the roughly 50% median expectation reported in the January 2015 and most earlier Barometers. Business tax professionals provided median expectations of 10% and 5% that the House Ways and Means Committee will mark up and pass tax reform legislation this year. Respondents gave a 0% median likelihood that the House will pass tax reform legislation this year.

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 Ninety-seven leading US tax executives and practitioners completed the September 2015 Barometer. Results are based on an online survey conducted by EY's Quantitative Economics and Statistics (QUEST) practice.

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

- ▶ Respondents thought it less likely (5% median likelihood) that the Senate Finance Committee chairman will release a specific tax reform plan by the end of 2015. They also did not expect that the full Senate will pass tax reform legislation by the end of 2015 (0% median likelihood).
- ▶ Barometer participants generally thought an innovation/patent box proposal should be funded with: 1) more stringent anti-base-erosion provisions (61%), 2) scaling back existing R&D-related provisions (49%), 3) a greater one-time tax on accumulated unrepatriated foreign earnings (42%), 4) a higher minimum tax on foreign earnings (36%), and/or 5) not paid for (i.e., deficit funded) (23%). About half of respondents (47%) indicated their organization is modeling the potential effect of an innovation/patent box proposal on their organization's (or members' or clients') federal tax liability, while about one-third (31%) reported that their organization is modeling the potential impact on their industry.
- ▶ Thirty percent of respondents think that the US will make significant changes stemming from the OECD BEPS project in 2017. No respondents believe these changes will occur in 2015, 20% believe changes will happen in 2016, 28% believe the US will implement BEPS changes in 2018, and 10% believe the US will not implement BEPS-related changes. When asked if the OECD BEPS project will result in significant changes in other countries during the same years, respondents pointed to 2016 and 2017 as the most likely years (30% median response for both years), compared to 2015 (10% median response), 2018 (25%), or not at all (5% median response).
- ▶ Forty-seven percent of business tax professionals believe that tax revenues will be raised to help fund the Highway Trust Fund and related infrastructure spending. Respondents indicated that funding is most likely to be provided by miscellaneous measures (40%) or international tax reform with a transitional repatriation provision (35%).
- ▶ 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 by the end of 2015; 91% of respondents believe Congress will extend the expiring provisions by the end of 2015. Most (67%) found it likely that the tax provisions will be extended for 2015 and 2016, while 29% believe the extension will cover 2015 only and 4% believe at least some of the expiring provisions will be permanently extended.

Prospects and timing of federal tax reform

The September 2015 Barometer focused on expectations for federal tax reform. The median response was a 25% likelihood that the House Ways and Means Committee chairman will release a specific tax reform plan before the end of 2015, which is the same percentage reported in the June 2015 Barometer but down from the 50% median likelihood reported in the January 2015 Barometer. The median expectation for the House Ways and Means Committee to begin a mark-up of tax reform legislation is 10%, while the median expectation for the committee to pass this legislation is 5%. Respondents were even less optimistic regarding whether the full House of Representatives would approve tax reform legislation (median 0% expectation) during the remainder of 2015.

Barometer respondents believe that the Senate is less likely to release a specific tax reform plan than the House in 2015. They gave a median expectation of 5% that the Senate Finance Committee chairman would release a tax reform plan, which is down from the 50% reported in the January 2015 Barometer and the 20% reported in the June 2015 Barometer, and a median expectation of 2% that the committee would begin a mark-up. Respondents gave a median 0% expectation for passage through either the committee or the full Senate in 2015.

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% | 5% |
| Tax-writing committee begins mark-up of tax reform legislation | 10% | 2% |
| Tax-writing committee approves tax reform legislation | 5% | 0% |
| Chamber passes tax reform legislation | 0% | 0% |

Business tax professionals gave a 3% 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 and additional proposals) can be expected to continue and influence any future tax reform.

Barometer trends suggest that federal tax reform is not generally expected prior to 2017, which is the first year of the next president's term. Respondents gave a 28% likelihood that tax reform will happen in 2017, a 6% likelihood of reform in 2016, a 26% likelihood in 2018 and a 16% likelihood in 2019. Respondents gave an average expectation of 21% that tax reform will not occur in the foreseeable future (i.e., the next five years) in the September 2015 Barometer, which is near the middle of the range from Barometers since November 2013 (15% to 26%).

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

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

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

Business tax professionals' responses on how an innovation/patent box proposal should be funded

| | Yes | No |
|---|-----|-----|
| By scaling back existing R&D-related provisions, such as the R&E tax credit and R&E expensing | 49% | 51% |
| With more stringent anti-base erosion provisions | 61% | 39% |
| With a higher minimum tax on foreign earnings | 36% | 64% |
| With a greater one-time tax on accumulated unrepatriated foreign earnings | 42% | 58% |
| Not paid for (e.g., deficit financed) | 23% | 77% |

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

Respondents were also asked about how an innovation/patent box proposal should be funded, if at all. Barometer participants generally thought an innovation/patent box proposal should be funded with: 1) more stringent anti-base-erosion provisions (61%), 2) scaling back existing R&D-related provisions (49%), 3) a greater one-time tax on accumulated unrepatriated foreign earnings (42%), 4) a higher minimum tax on foreign earnings (36%), or 5) not paid for (i.e., deficit funded) (23%).

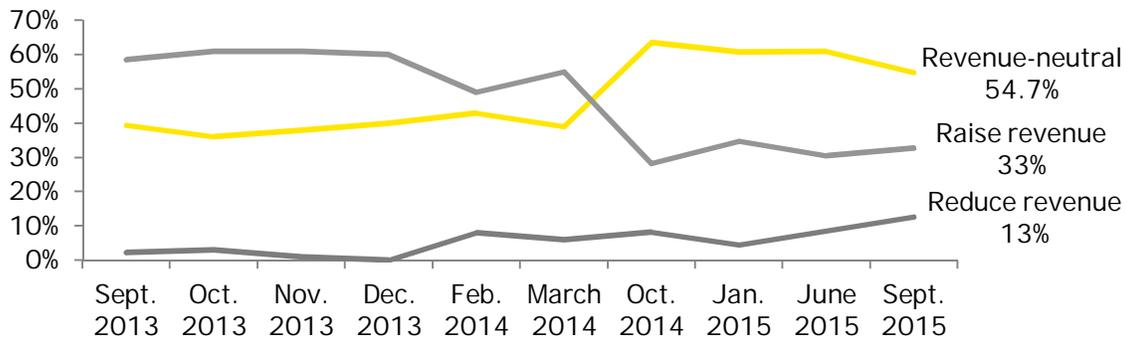
When asked if their organization is modeling any aspects of the innovation/patent box proposal's potential effect on federal tax liability, about half indicated that their organization is doing so (47%), while about a third (31%) reported their organization is modeling the potential impact of the innovation/patent box proposals on their industry.

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 outlined below:

- ▶ Most respondents (55%) expect tax reform will be revenue-neutral 33% think it will raise revenue (33%), and 13% think it will reduce revenue. While this finding is consistent with Barometers since October 2014, it represents a significant shift from most of our earlier Barometers, in which 50% to 60% of respondents generally thought tax reform would raise revenue.
- ▶ Approximately 16% of respondents think tax reform will affect only corporations, 21% think it will include all businesses including pass-throughs, 19% think it will or be international-only, and 45% think reform will be comprehensive. These results are consistent with the June 2015 Barometer, where respondents generally thought tax reform would affect business only (22%) or international only (22%), and 40% thought tax reform would be comprehensive. In the January 2015 Barometer, which did not include an option for 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.

Trend of business tax professionals' beliefs on tax reform features, from September 2013 to September 2015



Views on the BEPS project and expiring tax provisions

The September 2015 Barometer included questions on the OECD BEPS project and expiring business tax provisions.

Respondents were asked about the likelihood that the OECD BEPS project will result in significant US changes to how multinational corporations' global income is taxed in the next several years. Respondents gave the highest average likelihood that significant change will occur in 2017 (37%), and they assigned the lowest average likelihood (7%) to 2015. Although most respondents interpreted this question as asking which year was *most* likely to see significant change, it is also possible that respondents interpreted the question to be whether the BEPS project would lead to significant change in each of the years named. The professionals were then asked about the likelihood that the OECD BEPS project will result in significant changes in other countries to how multinational corporations' global income is taxed in the next several years. The results were similar to the US expectation responses –respondents thought that 2017 was the most likely year for significant changes (average likelihood of 38%) and that the lowest likely year was 2015 (15% average likelihood).

Respondents were asked if the OECD BEPS recommendations at the end of 2015 will influence US tax policy through a commitment on the part of the United States to adopt new rules in certain areas. Respondents were generally undecided on their views, although 70% think the United States will adopt new rules related to a patent/intellectual property box and 64% think treatment of hybrids will be affected.

Respondents expecting the BEPS project to influence the United States to adopt new rules in certain areas

| | Yes | No |
|--|-----|-----|
| Limiting the deductibility of interest | 43% | 57% |
| Patent box/intellectual property box | 70% | 30% |
| Treatment of hybrids | 64% | 36% |
| Subpart F | 56% | 44% |

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

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 by the end of 2015; they found it likely (91% average response) that the tax provisions will be extended by the end of 2015. Additionally, respondents found it most likely that 2015 and 2016 would be covered by the extension (67%). Others anticipate the extension covering only 2015 (29%) or a permanent extension of some or all of the expiring provision (4%), while 0% of respondents expect the extension to cover the period from 2015 through 2020.

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. Forty-seven percent believe Congress will raise tax revenues and 53% believe tax revenues will not be increased. Those who answered that they expected higher taxes were asked a follow-up question regarding funding means; fourteen percent think an increase in the gas tax would be the most likely way to provide funding, while 12% believe funding will come from a stand-alone repatriation provision and 35% think that international tax reform with a transitional repatriation provision would provide funding. Forty percent suggested other sources, such as miscellaneous compliance measures. Additionally, 17% of respondents expect that an international-only tax reform and Highway Trust Fund package will be enacted this year.

With regard to the recent interest in international-only reform, 35% think the enactment of such reform will increase the likelihood of enactment of a more comprehensive tax reform at a later date, while 65% believe it will hinder eventual enactment of comprehensive tax reform.

The prospects for federal tax reform and the expectations of leading US 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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