

TTC/EY Tax Reform Business Barometer

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

October 2014



The Tax Council (TTC)/Ernst & Young LLP (EY) 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 US Congress debates and develops tax reform. Additionally, the October Barometer includes questions addressing expiring business tax provisions and inversions. This is the seventh Barometer; it tracks the views reported between September 29 and October 8, 2014.²

Key results

- ▶ Business tax professionals continue to think tax reform will most likely be comprehensive, affecting both individual and corporate taxation. No respondents believe tax reform will be individual only.
- ▶ Most respondents (64%) expect tax reform will be revenue neutral, rather than raise revenue, a new finding in the October Barometer. Twenty-eight percent believe it will raise revenue, and 8% think it will reduce revenue.
- ▶ Respondents gave a median expectation of one-in-two that the House Ways and Means Committee chair will release a specific tax reform plan by the end of 2015. Tax professionals provided medians of 40% and 25% that the Ways and Means Committee will mark-up tax reform legislation and that the Ways and Means Committee will pass this legislation, respectively, and fewer believe the House will pass tax reform legislation.
- ▶ Respondents thought it more likely (48% median likelihood) that the Senate Finance Committee chair will release a specific tax reform plan by the end of 2015. However, they have a low expectation (10%) that the full Senate will pass tax reform legislation by the end of 2015.
- ▶ Seventy-three percent of tax professionals believe that if the major expired tax provisions are extended this year, they will likely be extended for two years. Seventeen percent expect an extension length of one year, while fewer believe the extension will be longer.
- ▶ The House of Representatives has approved extending some expired provisions on a permanent basis. Seventy-seven percent of respondents believe that the Senate is likely to approve extending the research and experimentation (R&E) tax credit on a permanent basis. Fewer think that the Section 179 property expensing election and certain charitable provisions will also be approved (41% and 27%, respectively) on a permanent basis.
- ▶ Business tax professionals tend to believe that the attention focused on inversions will make tax reform more likely (63%).
- ▶ Respondents continue to believe that tax reform will occur within the next several years (74% likelihood that tax reform will happen in 2018 or earlier). Respondents gave a 55% likelihood that tax reform will happen in 2017 or earlier, and they believe 2017 is the most likely year for tax reform with a 27% likelihood.

Prospects and timing of federal tax reform

The October Barometer also assesses business tax professionals' views on congressional actions through calendar year 2015. The median response was a 50% likelihood that the incoming Ways and Means Committee chair will release a specific tax reform plan before the end of next year. The median expectation for a Ways and Means Committee mark-up of tax reform legislation is 40%, while the expectation for the committee to pass this

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 eleven leading US 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 practice.

legislation is 25%. Respondents were more pessimistic regarding whether the full House of Representatives would approve tax reform legislation (median 20% expectation).

Barometer respondents continue to believe that the Senate is less likely to initiate or pass tax reform legislation than the House. They gave a median expectation of 48% that the Senate Finance Committee chair would release a tax reform plan and a median expectation of 30% that the committee would begin a markup. Responses indicated the likelihoods for passage through the committee and the full Senate is lower.

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

	House	Senate
Tax-writing committee chairman releases tax reform proposal	50%	48%
Tax-writing committee begins markup of tax reform legislation	40%	30%
Tax-writing committee approves tax reform legislation	25%	20%
Chamber passes tax reform legislation	20%	10%

Business tax professionals gave a 1% average likelihood of tax reform occurring in 2014, the same expectation given in March. Even without enactment within the next year or two, various foundational steps (e.g., hearings, debates, chairperson'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 28% likelihood that tax reform will happen in the 114th Congress (2015-16), a 46% likelihood in the 115th Congress (2017-18), and a 26% likelihood that tax reform will not occur in the next five years. The respondents have increased their expectation of no federal tax reform in the foreseeable future from 15% in November 2013 to 26% in October 2014.

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 five years
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%

Key expectations for federal tax reform legislation

Respondents were asked what key features they expect to be included 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 (64%) expect tax reform to be revenue neutral, a significant shift from the November 2013 Barometer in which 60% of respondents believed tax reform would raise revenue.
- ▶ A little over half of the respondents also expect a tax reform bill to be comprehensive, that is, to include both individual and corporate tax changes. Thirty-four percent think tax reform will focus on business-only tax changes, which would include both corporate income and income reported on individual tax returns from pass-through entities (e.g., partnerships and S corporations). Twelve percent expect tax reform only to focus on corporate income tax, an increase from the 8% who believed the same in March.

Business tax professionals' views on expiring tax provisions and inversions

The October Barometer included new questions on expiring business tax provisions and inversions. Earlier this year, the Senate Finance Committee approved a bipartisan bill to extend expired business tax provisions for 2014 and 2015. The House of Representatives passed legislation to permanently extend certain expired business tax provisions. Respondents were asked the expected length of extension if the major expired tax provisions are extended in 2014; most (73%) expect an extension of two years (through December 31, 2015), and 17% expect an extension of one year (through December 31, 2014). Others anticipate either longer extensions or differing extensions, such as some made permanent while others are extended for two years.

Business tax professionals also were asked to indicate which of the expired provisions approved by the House of Representatives on a permanent basis also would likely be approved by the Senate and become law. Respondents could select more than one provision, and 77% believed the Senate will approve the R&E tax credit on a permanent basis, with a 2014-24 revenue cost of \$156 billion. Forty-one percent of professionals believed that the Section 179 property expensing election, which has a 2014-24 revenue cost of \$73 billion, will be approved on a permanent basis. Fewer respondents believed certain charitable and S corporation tax relief would receive approval (27% and 19%, respectively) on a permanent basis.

Percent of respondents expecting Senate approval of expired provisions

	Percent of respondents
R&E tax credit (2014-24 revenue cost of \$156 billion)	77%
Section 179 property expensing election (2014-24 revenue cost of \$73 billion)	41%
Certain charitable provisions (2014-24 revenue cost of \$16 billion)	27%
Certain S corporation tax relief (2014-24 revenue cost of \$2 billion)	19%
50% expensing (2014-24 revenue cost of \$287 billion)	14%

Regarding inversions, on September 22, 2014, the U.S. Department of the Treasury announced its intention to issue regulations to curb inversion transactions. Barometer respondents were asked to report the likelihood that Congress would enact stand-alone inversion legislation. Business tax professionals gave a median expectation of 0% that inversion legislation would be enacted during the current calendar year, a 20% median expectation that it would be enacted during 2015 and a 73% median expectation that inversion legislation would not be enacted.

Sixty-three percent of those who responded believe that the attention focused on inversions will make tax reform more likely. Twenty-seven percent believe the attention will have no effect, while the remainder believes it will make tax reform less likely.

Other tax policy issues

Respondents were also asked about their organizations' modeling of potential federal tax reform effects. Sixty-five percent of respondents indicated that their association was modeling the effects on their organization's federal tax liability, which is consistent with the results in February 2014 when the Barometer asked this question. More respondents this month said they are modeling the effects of tax reform on their industry and customers and on the US economy (37% and 30%, respectively).

The prospects for federal tax reform and the expectations of leading US tax executives and practitioners will probably continue to change through the end of 2014 and into 2015. The Barometer will continue to gauge changes in the expectations for tax reform.

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