

TTC/EY Tax Reform Business Barometer

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

January 2015



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The Tax Council
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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 US Congress debates and develops tax reform. In addition, the January 2015 Barometer includes questions addressing the Administration's upcoming budget release, the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) project and expiring business tax provisions. This is the eighth Barometer; it tracks the views reported between January 14 and January 20, 2015.²

Key results

- ▶ Respondents continue to believe that tax reform will occur within the next several years (73% likelihood that tax reform will happen in 2018 or earlier). Respondents gave a 52% likelihood that tax reform will happen in 2017 or earlier, and they gave a 33% likelihood that 2017 will be the most likely year for tax reform to occur.
- ▶ Business tax professionals increasingly view business or corporate-only tax reform as more likely than a comprehensive reform affecting both individual and corporate taxation. Fifty-nine percent of respondents think tax reform will affect only businesses or only corporations, while 41% think reform will be comprehensive. In most prior Barometers, between 50% and 70% of respondents thought tax reform would likely be comprehensive.
- ▶ Most respondents (61%) expect tax reform will be revenue-neutral (rather than raise revenue), 35% believe it will raise revenue, and less than 5% 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.
- ▶ Respondents gave a median expectation of 50% that the House Ways and Means Committee chairman will release a specific tax reform plan by the end of 2015. Tax professionals provided medians of 30% and 20% that the Ways and Means Committee will mark up tax reform legislation and that the Ways and Means Committee will pass this legislation, respectively. Respondents gave a 10% median likelihood that the House will pass tax reform legislation.
- ▶ Respondents thought it equally likely (50% median likelihood) that the Senate Finance Committee chairman will release a specific tax reform plan by the end of 2015. They also have a lower expectation (10% median likelihood) that the full Senate will pass tax reform legislation by the end of 2015.
- ▶ Barometer participants generally thought (43%) that a tax reform plan put forward by the Obama Administration would be a positive step in moving the tax reform process forward.
- ▶ Respondents think the OECD BEPS project will result in the most significant change in global income taxation in the year 2017 (30% median response) as compared to 2015 (10% median

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

expectation), 2016 (25% median expectation), 2018 (25% median expectation) or not at all (15% median expectation).

- ▶ Fifty-nine 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 an increase in gas tax.
- ▶ Barometer participants gave a 65% average likelihood that Congress will explicitly incorporate revenue from the macroeconomic impact of tax reform in its official scorekeeping.

Prospects and timing of federal tax reform

The January Barometer assesses business tax professionals' views on the Administration's upcoming budget release, the OECD BEPS project, and expiring business tax provisions. The median response was a 50% likelihood that the incoming Ways and Means Committee chairman will release a specific tax reform plan before the end of next year. The median expectation for a Ways and Means Committee markup of tax reform legislation is 30%, while the expectation for the committee to pass this legislation is 20%. Respondents were more pessimistic regarding whether the full House of Representatives would approve tax reform legislation (median 10% expectation).

Barometer respondents believe that the Senate is equally likely to release a specific tax reform plan as the House. They gave a median expectation of 50% that the Senate Finance Committee chairman would release a tax reform plan and a median expectation of 25% that the committee would begin a markup. Responses indicated that the likelihood 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%	50%
Tax-writing committee begins markup of tax reform legislation	30%	25%
Tax-writing committee approves tax reform legislation	20%	20%
Chamber passes tax reform legislation	10%	10%

Business tax professionals gave a 9% 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 10% likelihood that tax reform will happen in 2016, a 33% likelihood in 2017, a 21% likelihood in 2018 and a 9% likelihood in 2019. The respondents have decreased their expectation of no federal tax reform in the foreseeable future, from 26% from the last Barometer in October 2014 to 17% in the January 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
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 Administration's upcoming budget release. Forty-three percent of respondents indicated that a detailed tax reform plan put forward by the Obama Administration would be a positive step in moving the tax reform process forward; 23% said it would be a neutral step, and 34% responded that a detailed tax reform plan would be a negative step.

Barometer participants gave a 65% average likelihood that Congress will explicitly incorporate revenue from the macroeconomic impact of tax reform in its official scorekeeping. Sixty-three percent of respondents indicate that their organization is modeling the potential effects of federal tax reform on their organization's federal tax liability, while 39% and 28% claim the same for the organizations' industry and customers, and the US economy, respectively.

Key expectations for federal tax reform legislation

Respondents were asked what key features they expect will 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 (61%) expect tax reform will be revenue-neutral (rather than raise revenue), 35% believe it will raise revenue, and less than 5% 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 increasingly view business or corporate-only tax reform as more likely than a comprehensive reform affecting both individual and corporate taxation. Fifty-nine percent of respondents think tax reform will affect only businesses, which would include both corporate income and income reported on individual tax returns from pass-through entities (e.g., partnerships and S corporations) (47%), or only corporations (12%), while 41% think reform will be comprehensive. In most prior Barometers, between 50% and 70% of respondents thought tax reform would likely be comprehensive.

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

The January 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 change in the taxation of global income of multinational corporations in the US and/or abroad in the next several years. Respondents gave an average likelihood of 39% 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 indicated. The professionals were then asked if the OECD BEPS recommendations at the end of 2015 will influence US tax policy through a commitment on the part of the US to adopt new rules in certain areas. Respondents were generally undecided on their views, although 57% think the US will adopt new rules in transfer pricing, and 44% think Subpart F will be influenced.

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

	Yes	No
Limiting the deductibility of interest	47%	53%
Definition of permanent establishment/threshold for taxable nexus in a country	49%	51%
Transfer pricing	57%	43%
Subpart F	44%	56%

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 about the likelihood that the major expiring tax provisions will be extended again; respondents found it more likely (61% average response) that the tax provisions will be extended in the second half of 2015 than in the first half of 2015 (6% average response). Others anticipate extensions occurring in 2016 or later or not at all (average responses of 23% and 6%, 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-nine percent believe Congress will raise tax revenues, and 41% believe tax revenues will not be increased. Those who answered that they expected a raise were asked a follow-up question regarding funding means; 57% think an increase in gas tax would be the most likely way to provide funding, 9% believe funding will come from repatriation holiday, and 14% agree that an increase in deficit would provide funding. Twenty percent suggested other sources, such as customs fees.

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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