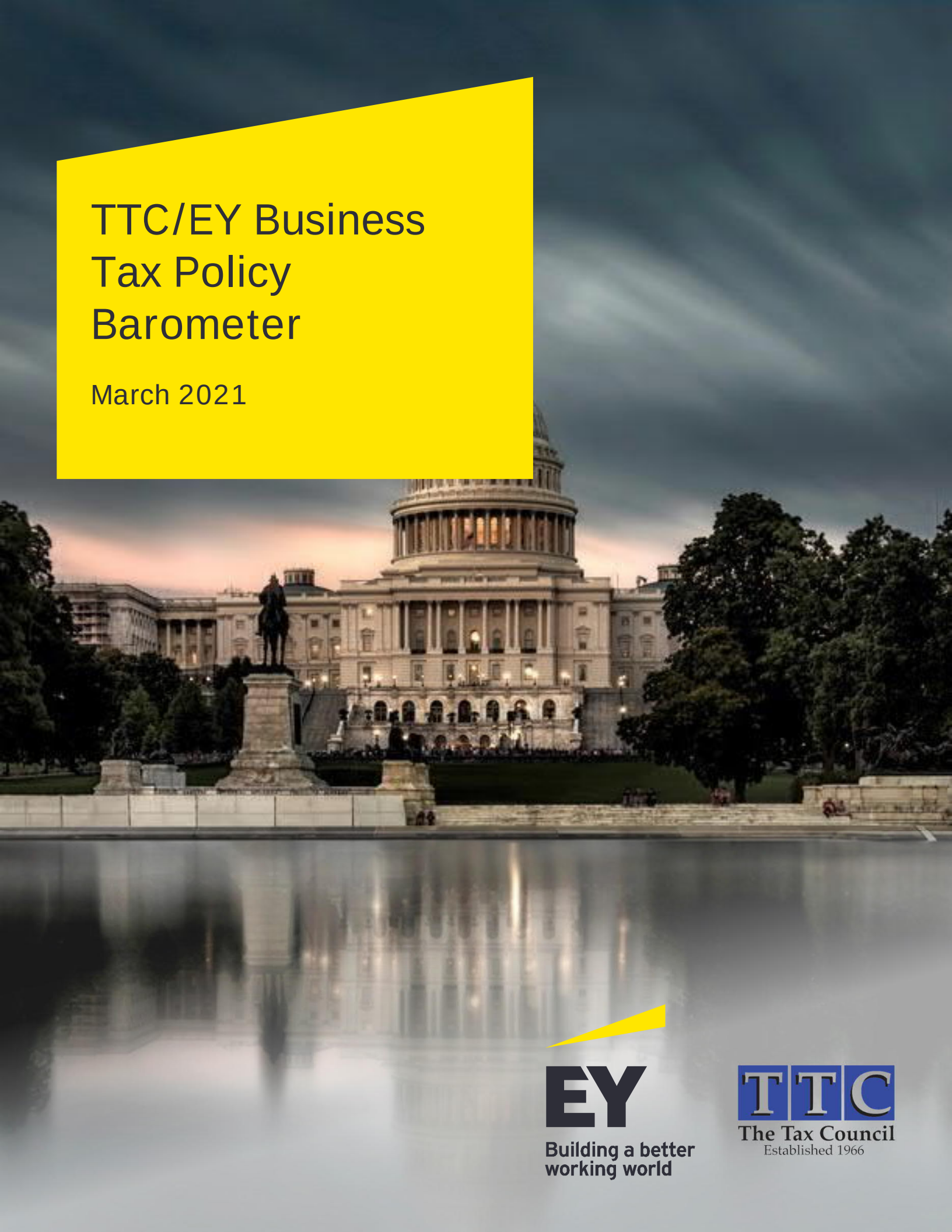
TTC/EY Business Tax Policy Barometer

March 2021



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The Tax Council
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Introduction

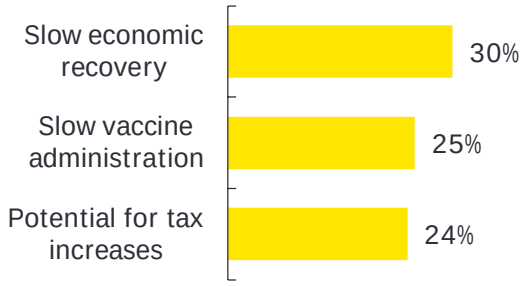
The Tax Council (TTC) and Ernst & Young LLP periodically produce the Business Tax Policy Barometer, providing insights on the business community's perceptions on business tax reform (US federal and global) as well as other key policy issues.[1] This 19th barometer tracks the views reported from February 19 through March 1, 2021.

Results from the barometer show that economic recovery remains a top concern for the business community. Respondents also overwhelmingly expect to see a US corporate tax increase either this year or next.

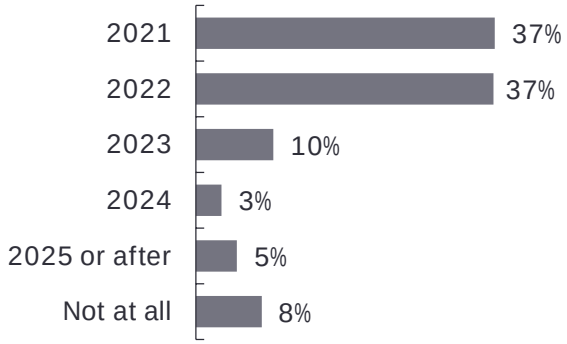
With the Biden administration moving quickly through its transition phase, business and tax executives need to stay informed of the key policy issues that could impact their operations.

Scroll through the following pages to learn more about how respondents are thinking about issues such as COVID-19 recovery, the Biden tax proposals, impact of certain provisions in the Tax Cuts and Jobs Act of 2017 (TCJA), US and global developments that impact multinationals, climate change and carbon pricing.

Top concern for 2021



Likelihood that the corporate rate will be increased in:



[1] The first barometer launched in 2013 and was limited to views on US tax reform. This 19th barometer tracks views reported by 101 leading US tax executives and practitioners. Results are based on an online survey conducted by the EY Quantitative Economics and Statistics (QUEST) practice.

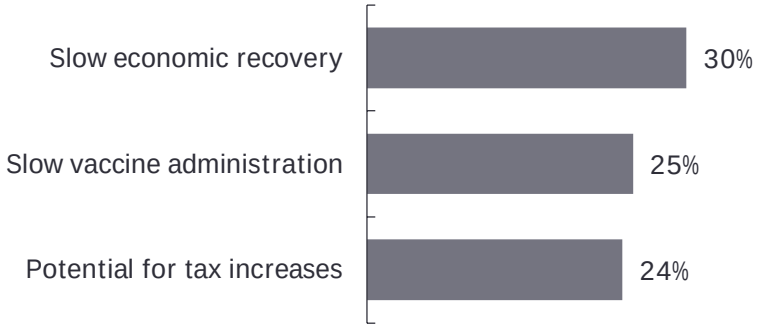
COVID-19 recovery

When looking back at the COVID-19 relief legislation passed at the end of 2020, respondents found the extension and expansion of the employee retention credit, along with extension of and changes to the Paycheck Protection Program (PPP), as the most important components of the bill.

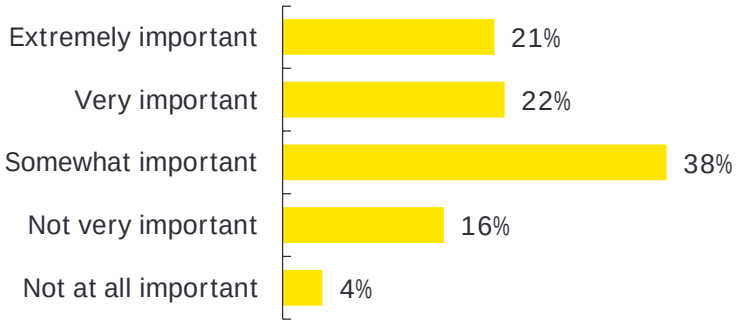
Respondents believe that the top concern for their company, industry or organization in 2021 is a slow economic recovery. However, both slow vaccine administration and potential tax increases are seen as the top concern by roughly a quarter of respondents.

Consistent with the enactment of the latest round of COVID-19 stimulus in mid-March, 80% of respondents said earlier it was at least somewhat important that additional fiscal stimulus be passed.

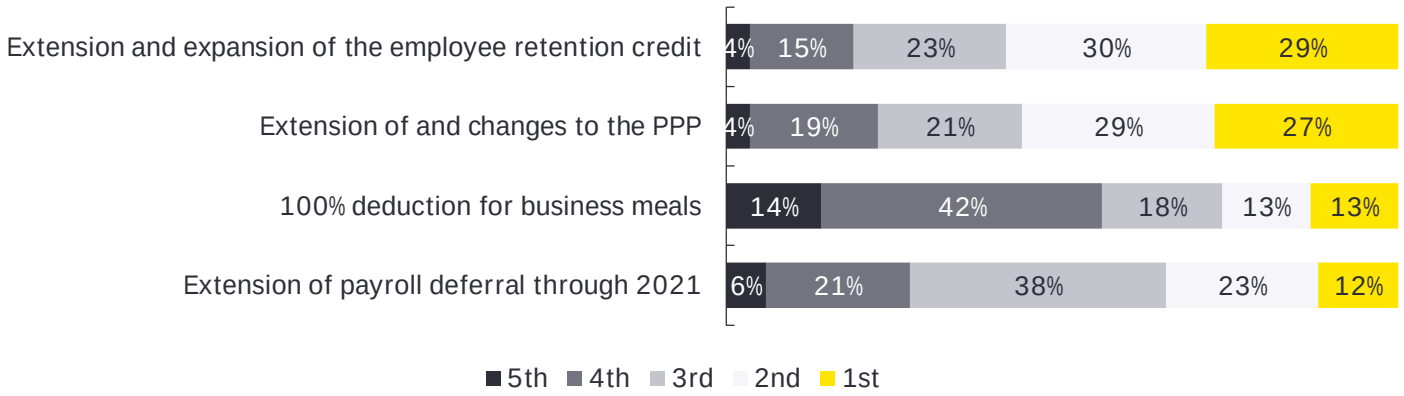
Top concern for 2021



Importance of additional fiscal stimulus



Most important part of year-end COVID-19 relief



Biden proposals

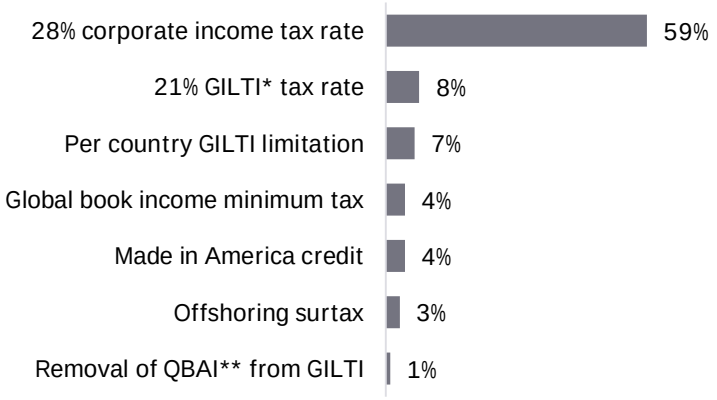
President Biden proposed several major tax changes during the campaign, but prospects for enactment are unclear. According to respondents, the average likelihood Congress will pass a major tax bill in 2021 is 58%. Respondents overwhelming believe that Biden's proposal to raise the corporate income tax to 28% would have the greatest impact on their company, industry, or organization.

President Biden identified a variety of domestic policy priorities during the presidential campaign and since being in office. Seventy percent of respondents believe that it is at least very likely major infrastructure legislation will be enacted in 2021. Roughly a third of respondents say the same about wealth and income inequality legislation.

58%

Average likelihood Congress will pass a major tax bill in 2021

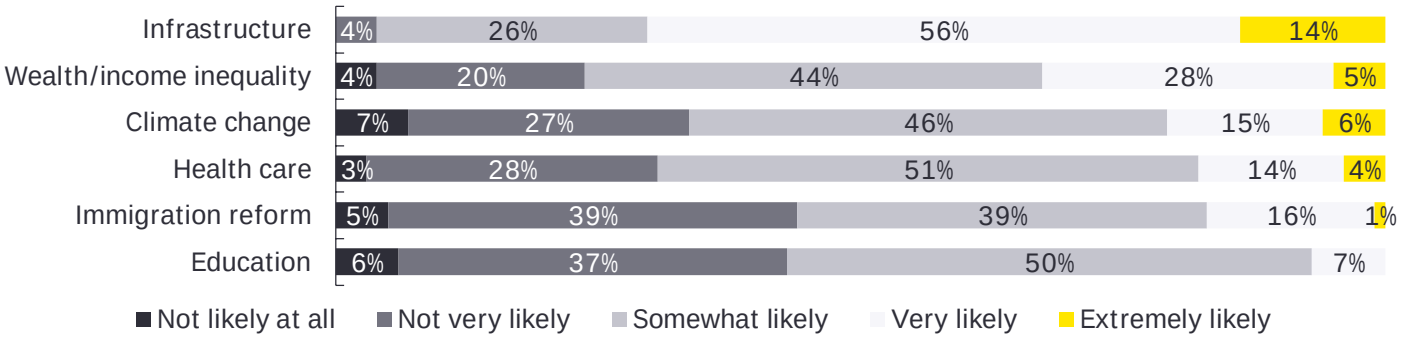
Most impactful aspect of Biden tax proposals



*Global intangible low-taxed income
**Qualified business asset investment

70% believe that infrastructure will be enacted in 2021

(likelihood of Biden domestic policy priorities)

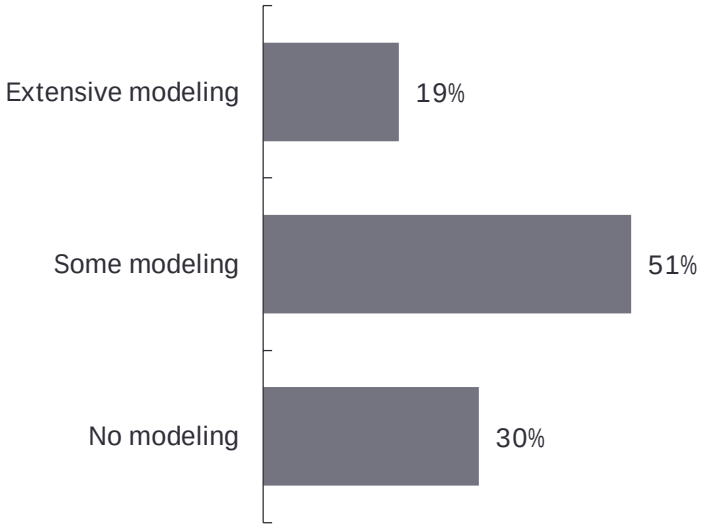


Biden proposals (cont.)

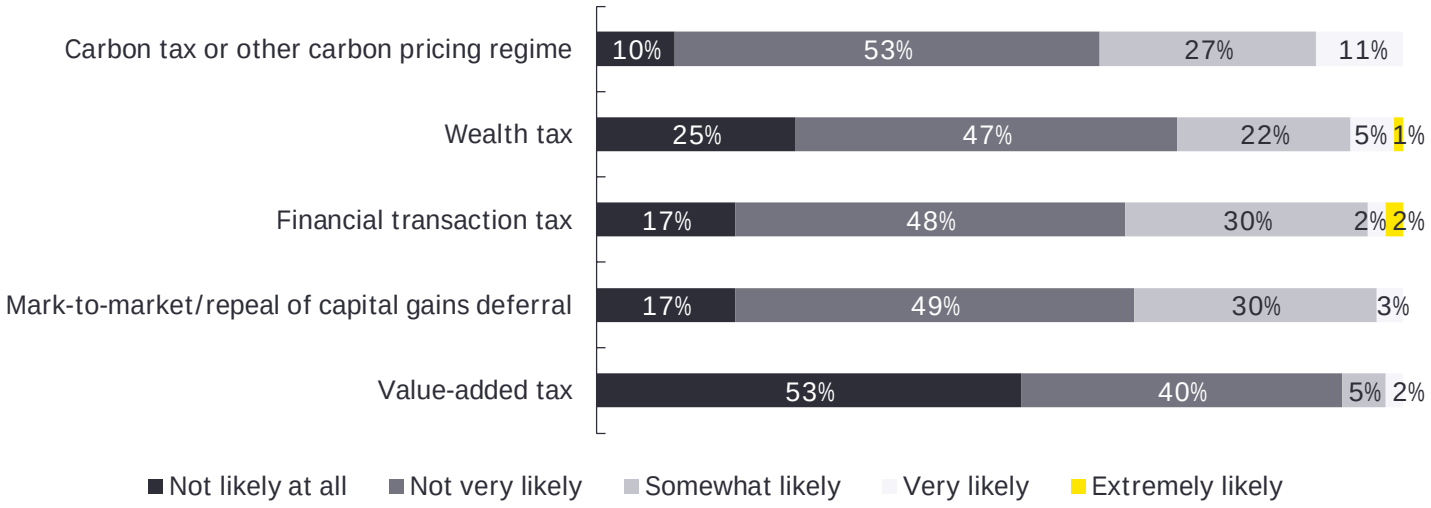
Over two-thirds of respondents report that their company, industry or organization has performed some modeling of the impacts of the Biden tax proposals.

Respondents generally think it unlikely that new revenue sources will be enacted during the current Congress (i.e., through 2022), with 11% saying that a carbon tax or other carbon pricing regime is very likely to be enacted during the current Congress. A value-added tax, mark-to-market, financial transaction tax and wealth tax are seen as the least likely to be enacted.

Modeling of impacts of Biden tax proposals



Likelihood of new revenue sources enacted during current Congress



Corporate income tax

On average, respondents believe the likelihood that the corporate income tax (CIT) rate will be increased by 2022 is about 75%. The average likelihood that the CIT rate is increased in 2025 or later, or not increased, is 13%. If increased, the respondents predict a 25% CIT rate.

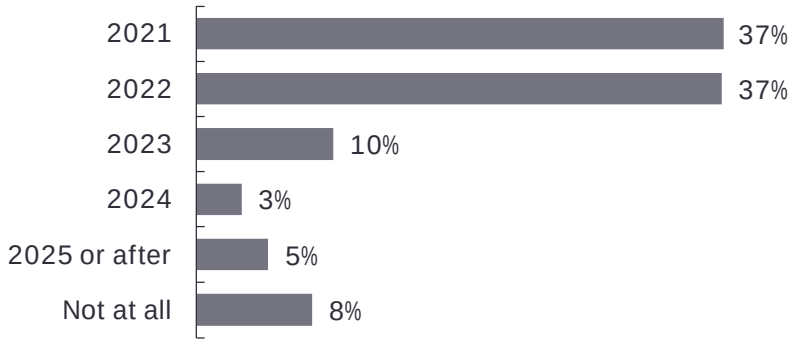
If the CIT rate were to be increased, respondents' companies, industries or organizations have a range of responses:

- 37% of respondents report the most likely response would be to reduce hiring, while 17% said a decrease in capital expenditures would be the most likely.
- No changes in operations was seen as the third most likely response.

75%

Likelihood of a corporate rate increase in 2021 or 2022

Likelihood that CIT rate will be increased in:



25%

Predicted corporate rate, if increased

Likeliest response to a CIT rate increase

US tax developments

Two major revenue-raising provisions of the TCJA, the EBIT-based interest expense limitation and the amortization of certain research and experimentation (R&E) expenditures, are not set to go fully into force until 2022.

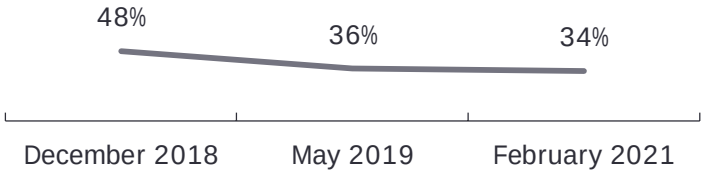
37% of respondents say the EBIT-based expense limitation will decrease plans for capital expenditures. However, 34% say it is at least very likely the provision goes fully into force at the beginning of 2022, a decrease from 48% and 36% in the December 2018 and May 2019 tax barometers, respectively.

39% of respondents say the amortization of certain R&E expenditures will decrease plans for R&D spending. However, 25% say it is at least very likely the provision goes fully into force at the beginning of 2022, a decrease from 37% and 30% in the December 2018 and May 2019 tax barometers, respectively.

37%

say EBIT-based interest expense limitation will decrease capex spending

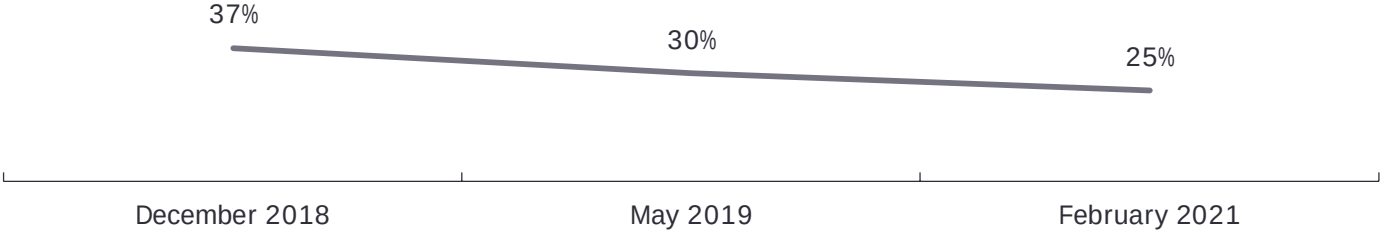
Percentage saying at least very likely EBIT-based interest expense limitation goes fully into force at beginning of 2022



39%

say amortization of certain R&E expenditures will decrease R&D spending

Percentage saying at least very likely amortization of certain R&E expenditures goes fully into force at beginning of 2022

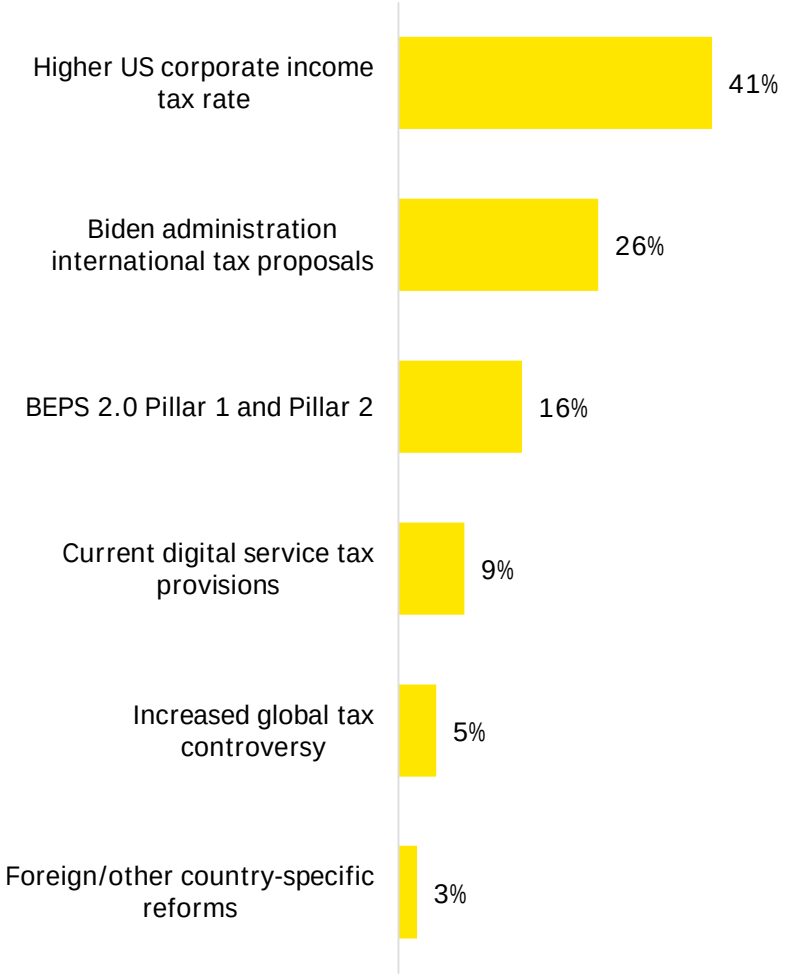


Global tax developments

There are many global tax developments that could impact US multinationals.

- Respondents believe that the most impactful of these developments are the Biden administration's international tax proposals, followed by a higher US corporate income tax rate.
- The Organization for Economic Co-operation and Development's base erosion and profit sharing (BEPS) 2.0 Pillar 1 and Pillar 2 was also widely seen as one of the more impactful developments.

Most impactful global tax development on US multinationals



Climate change and carbon pricing

As part of the Paris Agreement, there is a goal of limiting global warming by 2030 to 2°C compared to pre-industrial levels. Respondents believe the average likelihood that the global community will take actions sufficient to meet this goal is 36%.

When considering possible carbon mitigation policies, a majority say that a carbon tax would be their preferred policy, while 28% say that a combination of a carbon tax, emissions trading system (ETS)/cap and trade, and regulatory approach would be their preferred approach.

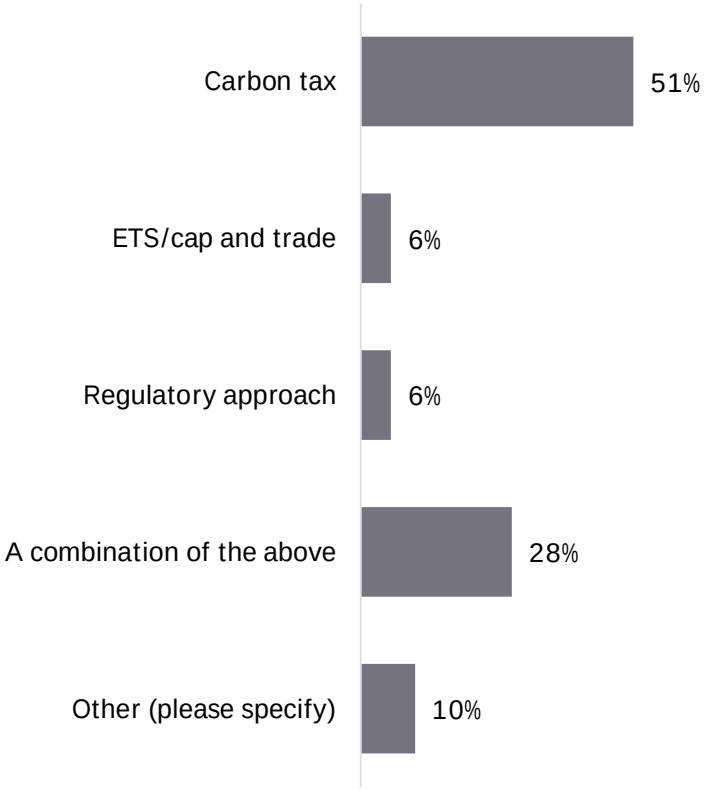
51%

prefer a carbon tax over other major carbon mitigation strategies

36%

Likelihood that the global community will act sufficient to meet the Paris Agreement's goal of limiting global warming to 2°C by 2030

Prefered carbon mitigation policy



About The Tax Council and Ernst & Young LLP

The Tax Council (www.thetaxcouncil.org) is a Washington, DC-based non-profit, membership organization promoting sound tax and fiscal policies since 1966. Our membership is comprised of (but not limited to) Fortune 500 companies, leading accounting and law firms, and major trade associations. The Tax Council's mission is to provide leadership in the tax and fiscal policy arenas, to contribute to a better understanding of complex tax laws and regulations through informational forums and to advocate sound tax and fiscal policies that encourage capital formation and preservation in order to enlarge productive investment and generate national economic growth. We provide a regular forum (luncheons and conferences) for our members to meet with key tax policy decision makers from the U.S. Congress to discuss important current tax issues; sponsor an annual three-day Spring Tax Policy Conference; and develop tax policy information and positions for public dissemination. The Tax Council is affiliated with the Tax Council Policy Institute (TCPI), a non-partisan and non-profit 501(c)(3) education and public policy research organization. For more information, please visit www.tcpi.org.

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Contacts

For more information on the barometer, please contact the following professionals:

Robert Carroll, Ph.D.
QUEST Co-leader
Ernst & Young LLP

Washington, DC
+1 202 327 6032
robert.carroll@ey.com

Lynda K. Walker, Esq.
President
The Tax Council

Washington, DC
+1 202 414 1460
lwalker@thetaxcouncil.org

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