

TTC/EY Tax Reform Business Barometer

Views on the prospects for federal tax reform and key tax reform issues

February 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 and tracks trends in the views of business tax professionals while tax reform is debated and developed in the US Congress. This is the fifth barometer; it tracks the views reported from January 29, 2013, the day after President Obama's State of the Union address, through February 7, 2014.²

Key results

- ▶ Most business tax professionals expect tax reform will be a multiyear effort with significant debate and developments continuing in 2014, but very little chance of legislation being enacted this year. Slightly more than half of respondents assign a zero probability of tax reform being enacted in 2014. Those who think there is some possibility of enactment have a median expectation of only 5%.
- ▶ Business tax professionals were less optimistic in February about the prospects of federal tax reform than in December. With the announced early retirement of Senate Finance Committee Chairman Max Baucus (D-MT) and the lack of a major push for tax reform in the President's State of the Union speech, the expectations of significant movement on tax reform in 2014 continue to decline.
- ▶ Looking to the House of Representatives, many respondents still expect (median 50%) House Ways and Means Committee Chairman Dave Camp (R-MI) to release a specific tax reform plan with rates, base broadeners and revenue estimates in 2014. The median expectation is that there is a one-in-four likelihood that the Ways and Means Committee will begin a tax reform markup in 2014. Fewer respondents believe the House Ways and Means Committee will approve tax reform legislation by the end of 2014 (median 10%), and an even smaller number think the House of Representatives will pass tax reform legislation this year (median 5%).
- ▶ As for the Senate, with a change in the Finance Committee chairmanship, most respondents had significantly lower expectations that the chairman would release a specific tax reform plan with rates, base broadeners and revenue estimates in 2014. The median expectation fell from 60% to 25% that a detailed tax reform plan would be released this year, even though Sen. Ron Wyden (D-OR), who was officially named chairman February 13, has previously released a tax reform proposal with legislative language and preliminary revenue estimates. Respondents believe it less likely that the Senate will engage in committee or full Senate action on tax reform in 2014 than the House.
- ▶ The median respondent thinks federal tax reform will most likely be enacted no sooner than 2017, in the first year of the next President's term. Respondents give a 34% average likelihood that tax reform will occur in the next Congress (2015-16), a 39% likelihood tax reform will occur in the 114th Congress (2017-18), and a 23% likelihood that tax reform will not occur in the next five years.
- ▶ With tax reform moving out of the spotlight, business tax professionals are focusing more on whether Congress will act to reinstate a number of important tax provisions that expired at the end of 2013, including the research tax credit, the Subpart F active financing exceptions, the look-through rule for controlled foreign corporations (CFCs), bonus depreciation and 51 other provisions. Respondents give an average likelihood of 21% that the expired provisions will be extended in the first half of 2014, a 54% likelihood in the second half of 2014, a 16% likelihood in 2015 or later, and a 9% likelihood that these provisions won't be extended.
- ▶ Outside of legislation to extend expired tax provisions, respondents have only a 10% median expectation that there will be tax legislation in 2014. The most frequently cited other potential tax legislation includes financing for the highway trust fund, revenue raisers to pay for tax or spending changes, legislation to encourage retirement savings and technical corrections.

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 leading US tax executives and practitioners completed this month's barometer. Results are based on an online survey conducted by EY's Quantitative Economics and Statistics practice.

Important milestones and elements of federal tax reform

There is a strong desire among policy-makers, the business community and the public for a tax system that is simpler, fairer and more conducive to economic growth. The chairmen of the House and Senate tax-writing committees originally set a goal of achieving tax reform by 2014. They have held numerous hearings and have solicited extensive feedback on key elements of tax reform over the past several years. President Obama called for federal tax reform in his FY14 budget and described key elements in the administration's Framework for Business Tax Reform, released in February 2012.

Questions remain, however, about whether tax reform can be achieved within the current political and legislative constraints, and if so, what form it will take. Key elements yet to be resolved include:

- ▶ Whether tax reform will be revenue-neutral, will lose or will raise revenue
- ▶ Whether reform will be comprehensive, affecting both individual and corporate income taxes, or limited to business taxes, the corporate income tax or the individual income tax
- ▶ What rates to set for corporate and individual income tax

Prospects and timing of federal tax reform

Business tax professionals expect that there will continue to be legislative activity on tax reform in 2014, although the expected likelihood of significant progress has declined since early December 2013. The median expectation of House Ways and Means Committee Chairman Camp releasing a detailed tax reform proposal with statutory language, specific rates, base broadeners and revenue estimates declined from 70% in December to 50% in early February 2014. The median expected likelihood that the House Ways and Means Committee will begin a markup of tax reform legislation is roughly one in four; that the Committee will approve tax reform legislation is one in ten; and that the House will pass tax reform legislation is one in twenty.

Late last year, Chairman Baucus released four tax reform discussion drafts addressing international tax, cost recovery, energy and tax administration, before his announced early retirement from the Senate. Release of those documents initially provided more optimism about prospects for progress in the Senate on tax reform in 2014. With the change in Senate Finance Committee leadership, respondents were less likely to expect progress on tax reform in 2014, even with new Chairman Wyden's expressed interest in tax reform and his prior release of tax reform proposals with former Senator Judd Gregg (R-NH) and current Senators Dan Coats (R-IN) and Mark Begich (D-AK).

The median expectation is that there is a one-in-four likelihood that Senate Finance Committee Chairman Wyden will release a new tax reform proposal in 2014, a one-in-ten likelihood that the Senate Finance Committee will begin a markup of tax reform legislation and a one-in-twenty likelihood that the Committee will pass tax reform legislation.

Change in business tax professionals' median expectations for tax reform action in 2014

	House		Senate	
	Feb. 14	Dec. 13	Feb. 14	Dec. 13
Tax-writing committee chairman releases tax reform proposal	50%	70%	25%	60%
Tax-writing committee begins markup of tax reform legislation	23%	50%	10%	30%
Tax-writing committee approves tax reform legislation	10%	25%	5%	20%
Chamber passes tax reform legislation	5%	10%	0%	5%

When asked about the likelihood of tax reform being enacted between 2014 and 2018, respondents expressed a 5% average likelihood of tax reform occurring in 2014, down from 20% in November 2013 and 9% in December

2013. Even if tax reform is not enacted by the end of 2014, the actions taken during 2014 (e.g., hearings, debates, chairmen’s drafts, committee legislation and additional proposals) will influence any future tax reform.

The median respondent thinks federal tax reform will be enacted no sooner than 2017, in the first year of the next president’s term. Respondents believe there is less than a 50% likelihood that tax reform would be enacted before that time. Respondents give a one-in-three likelihood that tax reform will happen in the 114th Congress (2015-2016); a 39% likelihood it will occur in the 115th Congress (2017-2018); and a 23% likelihood that tax reform will occur after 2018 or never. Respondents are slightly more pessimistic about the overall prospects for tax reform over the next five years, with an increased expectation of “no enactment” (from 15% in November to 23% in early February). Respondents think that tax reform is more likely to be enacted at the beginning of a new Congress or new presidential term.

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

Expected year of tax reform enactment	2014	2015	2016	2017	2018	Later/never
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 about their expectations of key features of final tax reform legislation. Those expectations could differ from their objectives for federal tax reform. Some of the key findings are:

- ▶ Five in ten respondents expect tax reform will raise revenue, which is lower than prior barometers in which the expectation was six in ten. Most other respondents expect tax reform to be revenue-neutral.
- ▶ Five out of ten respondents also expect a tax reform bill to be comprehensive, including both individual and corporate tax changes. This is also down from prior barometers, which have been around six out of ten. Thirty percent think tax reform will focus on business-only tax changes (including both corporate income, and income on individual tax returns from pass-through entities (e.g., partnerships and S corporations)). Nineteen percent expect tax reform to address only corporate income taxes, up from 12% in December.

Other tax policy issues

With less emphasis being placed on tax reform, business tax professionals are focusing more on whether Congress will act to reinstate a number of important tax provisions that expired at the end of 2013, including the research tax credit, exceptions under Subpart F for active financing income, look-through treatment of payments between related CFCs under the foreign personal holding company rules, 50% bonus depreciation and 51 other provisions. Respondents give an average likelihood of 21% that the expired provisions will be extended in the first half of 2014; a 54% likelihood in the second half of 2014; a 16% likelihood in 2015 or later; and a 9% likelihood that they will not be extended.

Fifty-four percent of respondents think the major expired provisions will be extended for only one year (through December 31, 2014); 39% think they will be extended for two years through December 31, 2015; 1% think they will be extended for three years; and 6% think some will be converted from temporary to permanent tax provisions.

Respondents have only a 10% median expectation that there will be tax legislation in 2014 outside of a potential extension of expired provisions. The most frequently cited other potential tax legislation includes financing for the highway trust fund, revenue-raisers to pay for other tax or spending legislation, legislation to encourage retirement savings and technical corrections.

Two-thirds of respondents report that their company or organization is modeling the potential effects of federal tax reform on their organization’s federal tax liability. Roughly one-third are modeling the effects of tax reform on

their industry and customers, while one-quarter are considering the effects of tax reform on the US economy and the macroeconomic effects on their organization.

It is likely that the prospects for federal tax reform and the expectations of leading US tax executives and practitioners will continue to change throughout 2014. The barometer will continue to gauge changes in the expectations for tax reform, including each of the milestones in the legislative process and the key elements of federal tax reform, over the remainder of the 113th Congress.

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