

TTC/EY Tax Reform Business Barometer

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

March 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 while tax reform is being debated and developed in the US Congress. Additionally, the March Barometer captured initial views regarding House Ways and Means Committee Chairman Dave Camp's recent tax reform proposal. This is the sixth Barometer; it tracks the views reported between March 10 and March 17, 2014.²

Key results

- ▶ Business tax professionals continue to think tax reform will most likely be comprehensive, affecting both individual and corporate taxation. Most (55%) also expect tax reform will raise revenue. Thirty-nine percent believe it will be revenue neutral, and 6% think it will reduce revenue.
- ▶ Even with Chairman Camp's release of his proposal, respondents only gave a median expectation of one in five that the House 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 5%), and an even smaller number think the House of Representatives will pass tax reform legislation this year (median 0%).
- ▶ Respondents gave a median likelihood of 10% that Senate Finance Committee Chairman Ron Wyden will release a new tax reform proposal in 2014. Respondents generally believe federal tax reform will be enacted no sooner than 2017, in the first year of the next president's term.
- ▶ Eighty-five percent of respondents believe Chairman Camp's proposal will potentially help the overall US economy. Fewer think that it will be helpful to their industry (50%) and even fewer believe it will be helpful to their company (49%). Forty-eight percent of respondents said it will definitely help the overall economy, while 37% said it will possibly help the economy.
- ▶ Sixty-four percent of respondents agree that Chairman Camp's international tax proposals are a positive step forward in the US international tax reform debate.
- ▶ Business tax professionals are almost equally split regarding whether Chairman Camp's proposal would simplify the US tax code. Forty percent believe it would simplify the tax code, 46% think it would not and the remainder do not know or do not have an opinion.
- ▶ Most respondents continue to expect the major expired tax provisions to be retroactively extended before the end of 2014 (73% average likelihood). When asked about the effect of Chairman Camp's tax plan on expiring provisions, one-third of respondents said they expect all of the expiring provisions to be extended, with more than half expecting some or all of the provisions to be allowed to expire.

Prospects and timing of federal tax reform

Business tax professionals are less optimistic than they were in early February regarding the prospects for tax reform in 2014. The median expected likelihood that the House Ways and Means Committee will begin a tax reform markup is one in five, three percentage points down from February's results. Respondents generally think there is

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 Eighty-three 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.

a one-in-twenty likelihood that the Committee will approve tax reform legislation in 2014, and there is no expectation that the House will pass tax reform legislation this year.

Even though Senate Finance Committee Chairman Ron Wyden has expressed interest in tax reform, survey respondents continue to think it less likely that the Senate will undertake tax reform-related action this year. The median expectation is only 10% that Wyden will release a new tax reform proposal in 2014, and no respondents expect tax reform to move further.

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

	House			Senate		
	Mar. 2014	Feb. 2014	Dec. 2013	Mar. 2014	Feb. 2014	Dec. 2013
Tax-writing committee chairman releases tax reform proposal	100%*	50%	70%	10%	25%	60%
Tax-writing committee begins markup of tax reform legislation	20%	23%	50%	0%	10%	30%
Tax-writing committee approves tax reform legislation	5%	10%	25%	0%	5%	20%
Chamber passes tax reform legislation	0%	5%	10%	0%	0%	5%

*Released February 26, 2014

The business respondents gave a 1% average likelihood of tax reform occurring in 2014. This is down from 20% in November 2013, 9% in December 2013 and 5% in February of this year. A few respondents gave a small likelihood that tax reform might happen. Even if tax reform is not enacted by the end of 2014, the actions taken during 2014 (e.g., hearings, debates, chairman's drafts, committee legislation, additional proposals) are expected to influence any future tax reform.

The median respondent continues to think that federal tax reform will be enacted no sooner than 2017, in the first year of the next president's term. According to respondents, there is less than a 50% likelihood that tax reform would be enacted before 2017. Respondents give about a one-in-three likelihood that tax reform will happen in the 114th Congress (2015-16), a 44% likelihood in the 115th Congress (2017-18) and a 24% likelihood that tax reform will occur after 2018 or never. The respondents have increased their expectation that there will be no federal tax reform in the foreseeable future from 15% in November 2013 to 24% in March 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 5 years
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 about what they expect to be key features of any eventual final tax reform legislation. Those expectations could differ significantly from their objectives for federal tax reform. Some of the key findings are:

- ▶ Fifty-five percent of respondents expect tax reform to raise revenue, which is a slight increase from last month's expectation of 49%. Most other respondents expect tax reform to be revenue neutral.
- ▶ About 7 in 10 respondents also expect a tax reform bill to be comprehensive, including both individual and corporate tax changes. This is an increase from prior Barometers, which have been around 6 out of 10, and matches the expectation of respondents in September. Twenty-three 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) and would be similar to what President Obama proposed this past summer. Eight percent expect tax reform to only focus on corporate income tax, which is down from 19% in February.

Business tax professionals' views on Chairman Camp's proposal

The March Barometer included questions specifically about Chairman Camp's tax reform proposal. Respondents were asked if they thought the proposal, which pays for lower tax rates by broadening the income tax base, would be helpful to the overall US economy, their industry and their company. Eighty-five percent think it will be helpful or possibly helpful to the US economy, while 10% disagree, and 5% don't know. Approximately half of the respondents think it will be helpful or possibly helpful to both their industry and their company.

Expected effect of Chairman Camp's tax reform proposal

	Helpful	Possibly helpful	Not helpful	Don't know/No opinion
Overall US economy	48%	37%	10%	5%
Tax professionals' industries	28%	22%	37%	13%
Tax professionals' companies	27%	22%	31%	20%

Business tax professionals were also asked their views on Chairman Camp's international tax proposals. Sixty-four percent believe they are a positive step forward in the US international tax reform debate, 13% believe them to be neutral, 13% think they are a step backward and 10% don't know or have no opinion.

When considering the effect the proposal has on extending expiring provisions this year, 43% of survey respondents said they expected that the list of expiring provisions will be extended with some paring back, 34% think all will be extended, 8% do not think the expiring provisions will be extended and the rest do not know or have no opinion.

Chairman Camp's proposal lowers tax rates and repeals many current income tax provisions, while adding some new provisions (e.g., provisions requiring advertising expenses and R&E expenditures to be amortized and a new tax on "systemically important financial institutions"). Forty percent of respondents think the plan as a whole simplifies the US tax code, while 46% do not expect simplification. When asked which provisions are significant simplifiers, many respondents cited the elimination of certain tax provisions, such as the domestic production deduction and certain tax credits. The proposed Subpart F and base erosion changes were mentioned as being more complicated than current law.

Other tax policy issues

- ▶ Respondents were also asked how likely it was that the major expired tax provisions will be retroactively extended within particular time frames. Similar to February's results, most expect Congress to extend the provisions in the second half of 2014 (63% likelihood), and only a handful think the expiring provisions will be extended during the first half of 2014 (10% likelihood). Respondents gave a 20% likelihood that the provisions will be extended in 2015 or later and a 7% likelihood that they won't be extended at all.
- ▶ 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 during any significant milestones in the legislative process and over the remainder of the 113th Congress.

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