The Tax Council/EY Tax Reform Business Barometer:

Initial views on the prospects for federal tax reform and key tax reform issues

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The Tax Council
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The Tax Council (TTC)/EY Tax Reform Business Barometer provides a current assessment of business tax professionals' views on the prospects and key aspects of federal tax reform. The barometer measures the expected likelihood of the different stages and key elements of federal tax reform.

Key results:

- Over 70% of respondents believe a detailed tax reform plan will begin to be worked on by the US House of Representatives Committee on Ways and Means this year. Nearly 50% of respondents believe a tax reform plan will be put forward in the US Senate.
- Forty-three percent of the respondents expect the House Ways and Means Committee to pass tax reform legislation by the end of this year. About one-in-five respondents expect the Senate Committee on Finance to do so as well.
- Over one-quarter of respondents think that federal tax reform will be enacted by the end of 2014.
- Sixty-one percent of the respondents ranked the revenue neutrality vs. revenue raising issue as the biggest hurdle to federal tax reform, followed by reluctance to reduce major individual tax expenditures.

The TTC/EY Tax Reform Barometer defines tax reform as legislation that substantially broadens the tax base or changes the tax rate for either corporate or individual taxpayers.

The barometer is a monthly survey completed by approximately 100 leading US tax executives and practitioners that tracks trends in the views of business tax professionals while tax reform is debated and developed in the US Congress. The survey results are based on an online survey conducted by EY's Quantitative Economics and Statistics practice during the period of August 27 to September 6, 2013.

Important milestones and elements of tax reform

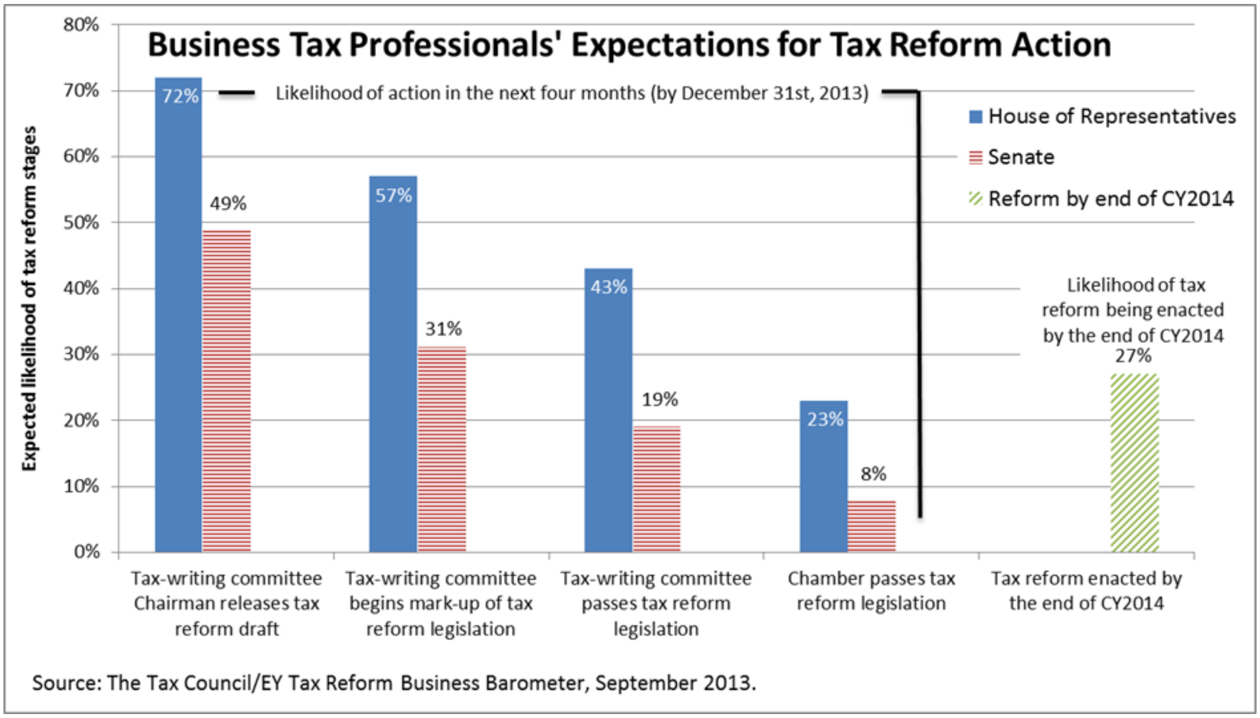
There is a strong desire among policymakers, the business community and the public for a tax system that is simpler, more conducive to economic growth, and fairer. The chairmen of the House and Senate tax-writing committees have expressed their goal of achieving tax reform by 2014 and have held numerous hearings and solicited feedback in a variety of ways on key elements of tax reform over the past several years. President Obama has 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. Whether Congress and the president can achieve federal tax reform, as well as what type of tax reform will be included, however, are major questions facing the business community.

Federal tax reform will need to work its way through the legislative process with the release of detailed tax plans, movement of legislation through the House Ways and Means Committee, to the House of Representatives, to the Senate Finance Committee, to the Senate, and then to a Conference Committee before returning for approval by the House of Representatives and the Senate. Any final tax reform legislation will also need to be signed by the president.

Key elements of tax reform include whether it will be revenue neutral, lose or raise revenue; whether reform will be comprehensive affecting both individual and corporate income taxes or limited to the individual income tax only or the corporate income tax only; and where the top individual and corporate income tax rates will be set.

Prospects and timing of federal tax reform

Business tax professionals think there is a strong likelihood that the chairmen of the House and Senate tax-writing committees will put forward specific tax plans and that the House Ways and Means Committee and the Senate Finance Committee will begin a legislative mark-up of the tax reform legislation before the end of calendar year 2013. The likelihood of passage by the committees and the full House and Senate by the end of 2013 are lower, but still a possibility despite the multiple hurdles discussed below.



Business tax professionals also ranked the likelihood of tax reform being enacted by the end of calendar year 2014. At this early stage of the debate, the respondents put the likelihood of federal tax reform in the next 16 months at 27%. Even if tax reform is not enacted by the end of 2014, the actions taken during the next 16 months (e.g., hearings, debates, chairmen's drafts, committee legislation, additional proposals) will influence any future tax reform.

Hurdles for federal tax reform

The survey asked participants to rank a number of potential hurdles to federal tax reform.

The respondents viewed the issue of revenue neutrality vs. revenue increases as the biggest hurdle facing tax reform, with 61% ranking it as the biggest hurdle, and 83% ranking it as the first or second highest hurdle.

Reluctance to reduce major individual income tax expenditures — such as the mortgage interest deduction, the exclusion for employer-sponsored health insurance, retirement savings, charitable contributions and state/local tax deductions — was ranked the second most important hurdle facing tax reform. Reducing individual tax expenditures was ranked by 41% of the respondents as the second biggest hurdle, and 57% ranked it as the first or second highest hurdle.

Prioritization of tax reform by the president was ranked by 30% of the respondents as one of the top two hurdles of federal tax reform. The remaining time in calendar year 2014, given other legislative priorities, was ranked by 18% of the respondents as one of the top two hurdles, while 14% ranked reluctance to reduce the corporate tax rate without reducing the top individual income tax rate as one of the top two hurdles.

Key tax reform issues

Respondents were asked about their expectations of key features of final tax reform legislation. Those expectations of final legislation could be significantly different than their objectives for federal tax reform.

The Tax Reform Act of 1986 reduced both individual and corporate income tax rates in an overall revenue-neutral fashion. The 1986 Act lowered the top individual income tax rate from 50% to 28% and the top corporate income tax rate from 46% to 34%. The Act also reduced overall taxes for individual income taxpayers while increasing overall taxes on corporations.

A critical element of tax reform will be whether the tax legislation will be revenue neutral, similar to the 1986 Tax Act, or reduce or increase federal revenues. Thirty-nine percent of respondents expect the final federal tax reform legislation to be revenue neutral overall, while 59% expect the final federal tax reform legislation could increase in federal revenues and 2% expect a decrease in federal revenues.

The potential size and scope of federal tax reform can be gauged by the change in the top statutory individual and corporate income tax rates. The current top statutory tax rate for individual income tax payers is 39.6%. The median top individual income tax rate expected in the final tax reform legislation by respondents is 35%. The current top statutory federal corporate income tax rate is 35%. The median top corporate income tax rate expected by respondents to emerge in the final tax reform legislation is 28%. The median rate means that half of the respondents expect the corporate rate to be lowered to 28% or below while half expect the corporate tax rate to be 28% or higher.

Another key element of tax reform is whether Congress will pass comprehensive legislation affecting both individuals and corporations, or if the changes will only apply to corporations or only to individuals. Pass-through businesses (e.g., S corporations, partnerships, limited liability corporations) pay tax on income allocated to individual owners under the individual income tax. Of the respondents, 69% expect the final federal tax reform legislation to be comprehensive encompassing both individual and corporate income taxes, while 31% expect only corporate tax reform. No respondents expect only individual income tax reform. Another possibility not addressed in the initial survey is whether tax reform might be limited to a business-only tax reform (i.e., corporate and non-corporate business income that does not affect individuals' wages, retirement benefits or earnings on their savings).

Potential changes in the international taxation of multinational corporations are a possible component of federal tax reform. The 1986 Tax Act, for example, increased the taxation of multinational corporations. Sixty percent of the respondents expect the final federal tax reform legislation to include an increase in the overall taxation of multinational corporations, 37% expect a revenue-neutral change, while 3% expect a decrease in their tax liabilities.

The initial barometer survey was conducted before the Congress returned from its August recess, and prior to the September 30, 2013 deadline for funding the government for fiscal year 2014 and the federal debt limit debate. It is likely that the prospects for federal tax reform and the expectations of leading U.S. tax executives and practitioners, will change as Congress returns and begins its fall deliberations. The barometer will 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. Stay tuned.

About The Tax Council and EY

The Tax Council is a Washington, DC-based non-profit, membership organization promoting sound tax and fiscal policies since 1966. Its membership is comprised of (but not limited to) Fortune 500 companies, leading accounting and law firms, and major trade associations.

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TTC/EY Tax Reform Business Barometer

Thank you for participating in the TTC/EY Tax Reform Business Barometer survey on the prospects and key issues of federal tax reform. For purposes of this survey, please consider "tax reform" as legislation that substantially broadens the tax base or changes the tax rate for either corporate or individual taxpayers. Future results of this survey will be published only on an aggregate basis; individual responses will be confidential.

1. What is the likelihood (probability) of tax reform being enacted by the end of CY2014? _______ (0-100)%
2. Rate the likelihood of action in the US House of Representatives in the next four months (by December 31, 2013):
   a. Chairman Camp releases a tax reform draft: _______ %
   b. Ways and Means Committee begins mark-up of tax reform legislation: _______ %
   c. Ways and Means Committee passes tax reform legislation: _______ %
   d. House passes tax reform legislation: _______ %
3. Rate the likelihood of action in the US Senate in the next four months (by December 31, 2013):
   a. Chairman Baucus releases a tax reform draft: _______ %
   b. Senate Finance Committee begins mark-up of tax reform legislation: _______ %
   c. Senate Finance Committee passes tax reform legislation: _______ %
   d. Senate passes tax reform legislation: _______ %
4. Do you think a tax reform bill, if passed, will be comprehensive or will it focus on individual or corporate tax reform?
   a. Both corporate and individual
   b. Individual only
   c. Corporate only
5. How will a tax reform bill change federal revenue?
   a. Reduce revenue
   b. Revenue neutral
   c. Raise revenue

If tax reform is enacted by the end of 2014, what do you think the most likely top tax rate will be for the following?

6. Individuals (current top rate 39.6%): _______ %
7. C corporations (current top rate 35%): _______ %
8. If significant international tax reform occurs in the context of broader tax reform, how will the international provisions change revenue?
   a. Reduce revenue
   b. Revenue neutral
   c. Raise revenue

9. Rank the following hurdles from highest to lowest that must be overcome to achieve major tax reform by the end of CY2014:

	1st Highest	2nd Highest	3rd Highest	4th Highest	5th Highest	Not a Hurdle
Revenue neutrality vs. revenue raising issue						
Reluctance to reduce major individual tax expenditures						
Reluctance to reduce corporate tax rate without similar reduction in individual top tax rate						
Requires Presidential prioritization of tax reform						
Remaining time in CY2014 given other legislative priorities						
Other (please specify): ____________________						

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