

# TTC/EY Tax Reform Business Barometer

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

December 2013



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.<sup>1</sup> The barometer measures the expected likelihood of the different stages and key elements of federal tax reform. This monthly survey tracks trends in the views of business tax professionals while tax reform is debated and developed in the US Congress. This is the fourth monthly barometer; it tracks the views reported between December 5 and December 13, 2013.<sup>2</sup>

## Key results

- ▶ Most business tax professionals expect tax reform will be a multi-year effort with significant debate and developments continuing in 2014. Very few respondents believe tax reform will be completed next year.
- ▶ Business tax professionals were less optimistic in December about the prospects of federal tax reform than in November. This is not surprising considering economic and political developments during this time period. The December responses were received before the House and Senate Budget Committee Chairs announced agreement on a two-year federal budget, but after the House Ways and Means Committee decided not to advance tax reform this year.
- ▶ Looking to the House of Representatives, respondents generally believe House Ways and Means Committee Chairman Dave Camp (R-MI) will release a specific tax reform plan with rates, base broadeners, and revenue estimates in 2014. A good number also think the Committee will begin a tax reform markup in 2014. Fewer respondents believe the House Ways and Means Committee will pass tax reform legislation by the end of 2014, and an even smaller number think the House of Representatives will pass tax reform legislation next year.
- ▶ As for the Senate, respondents also think that Senate Finance Committee Chairman Max Baucus (D-MT) will release a specific tax reform plan with rates, base broadeners, and revenue estimates in 2014. Compared to the prospects in the House Ways and Means Committee, slightly fewer respondents think that the Senate Finance Committee will begin a tax reform markup in 2014. Even fewer respondents expect the Senate Finance Committee to pass tax reform legislation by the end of 2014, and significantly less think the Senate will pass tax reform legislation next year.
- ▶ The expectation that federal tax reform will be enacted in 2014 fell from 20% in October, to 15% in November, and to 10% in December. The median respondent thinks federal tax reform will most likely be enacted by 2017.
- ▶ Business tax respondents suggest there is a greater likelihood Congress will pass federal legislation affecting state business taxation. The median respondent said the likelihood is between one-in-three and one-in-five that the following four federal laws affecting state taxation could be enacted in 2014: the Marketplace Fairness Act (33% median), the Mobile Workforce State Income Tax Simplification Act (30%), the Internet Tax Freedom Act (25%), and the Business Activity Tax Simplification Act (20%).

## Important milestones and elements of federal tax reform

There is a strong desire among policymakers, 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 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 called

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<sup>1</sup> 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.

<sup>2</sup> Approximately 80 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.

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 think there is a strong likelihood that there will be significant activity on tax reform by the end of this Congress (i.e., by the end of 2014). The median expectation is that there is a one-in-four likelihood that the House Ways and Means Committee will approve tax reform next year, and a one-in-ten likelihood that the House of Representatives will pass tax reform next year. On the Senate side, the median expectation is a one-in-five likelihood that the Senate Finance Committee will approve tax reform next year, and a one-in-twenty likelihood that the Senate will pass tax reform.

### Change in business tax professionals' median expectations for tax reform action by December 31, 2014

	House		Senate	
	Dec.	Nov.	Dec.	Nov.
Tax-writing committee chairman releases tax reform proposal	70%	75%	60%	51%
Tax-writing committee begins markup of tax reform legislation	50%	55%	30%	40%
Tax-writing committee approves tax reform legislation	25%	50%	20%	25%
Chamber passes tax reform legislation	10%	25%	5%	10%

The median expectation that federal tax reform will be enacted in 2014 was 10% at the beginning of December, down from 15% in early November and from 20% in early October. The responses were provided before the House-Senate conference agreement on the federal budget, but after the decision not to move tax legislation further in the House in 2013. The perceived likelihood that House Ways and Means Committee Chairman Camp would release a tax reform proposal and the Committee would begin a markup in 2014 declined slightly from the month before. Declines in expectations that tax reform would emerge from the Committee and pass in the House were larger.

Business tax representatives were even less optimistic about the prospects of tax reform passage in the Senate, although the median expected likelihood of Senate Finance Committee Chairman Baucus releasing a tax reform draft in 2014 increased to 60% in December. This occurred despite the December barometer setting a higher bar for the tax-writing chairmen, defining a proposal as a "specific tax reform plan (e.g., rate(s), base changes, revenue estimates)," rather than a tax reform draft.

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, additional proposals) will influence any future tax reform.

When asked about the likelihood of tax reform being enacted between 2014 and 2018, only 1% had a median expectation of tax reform being enacted in 2014, 23% in 2015, 21% in 2016, 31% in 2017, and 12% in 2018. Some 12% of respondents did not think it was likely to happen in the next five years. The median respondent thought that tax reform was most likely to happen by 2017, showing that respondents have pushed back their expected timing of tax reform.

## Business tax professionals' median expectations for timing of tax reform enactment

Expected year of tax reform enactment	2014	2015	2016	2017	2018	Later/never
December	1%	23%	21%	31%	12%	12%
November	15%	22%	21%	26%	6%	9%

## 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 significantly from their objectives for federal tax reform. Some of the key findings, which did not change significantly from last month, are:

- ▶ Six out of ten respondents continue to believe that a tax reform bill will raise revenue. The others expect tax reform to be revenue-neutral.
- ▶ Approximately six out of ten respondents also expect a tax reform bill to be comprehensive, including both individual and corporate tax changes. Twenty-nine percent think tax reform will focus on business only (which would include both corporate income, plus income on individual tax returns from pass-through entities (e.g., partnerships and S corporations)). Just 12% expect a corporate income tax-only reform, which is what President Obama proposed this summer.

## Other tax policy issues

Federal tax reform is not being debated in isolation. Continuing congressional deliberations on the budget and the debt limit, and the Organization for Economic Co-operation and Development's debate over global taxation, could impact the timing and design of federal tax reform. Expiring tax provisions are also an important issue if the tax reform debate continues in 2014. The November barometer asked several new questions to address these coinciding issues. In December, the barometer added questions about the prospects for federal legislation that could affect business taxes at the state level.

Four federal legislative proposals have emerged during the 113<sup>th</sup> Congress that, if enacted, would impose uniform national standards on specific aspects of the state taxation of businesses, employees and certain services. To be enacted, however, these bills affecting state tax activities would proceed through the House Judiciary Committee and the Senate Commerce Committee, rather than through the traditional congressional tax-writing committees (i.e., the House Ways and Means Committee and the Senate Finance Committee). This different path to enactment could affect the prospects and timing of the legislative process. The respondents believed that each of these proposals would have the following chance of enactment in 2014:

- ▶ The Marketplace Fairness Act (imposing sales tax collection responsibilities on out-of-state retailers) has a median expected likelihood of passage in 2014 of 33%. The Senate already approved this bill in May 2013.
- ▶ The Mobile Workforce State Income Tax Simplification Act (limiting a state's ability to impose withholding taxes on nonresident workers temporarily working in a state) has a median expected likelihood of passage in 2014 of 30%.
- ▶ The Internet Tax Freedom Act (continuing certain exclusions from state taxation for electronic commerce) has a median expected likelihood of passage in 2014 of 25%.
- ▶ The Business Activity Tax Simplification Act (establishing uniform national state nexus standards for business taxes (i.e., minimum standards for the imposition of all business taxes on non-resident businesses)) has a median expected likelihood of passage in 2014 of 20%.

Respondents may be aware of recent US Supreme Court decisions not to hear cases involving state tax presence standards, which would necessitate legislative intervention by Congress to establish uniform standards among the states.

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. Look for the next barometer early in the new year.

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SCORE No. YY3878

1312-1178460

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