How CFOs view tax, trade and regulations amid GOP sweep

EY Center for Executive Leadership –
November 2024 CFO roundtable

Most CFOs indicate that they are cautiously optimistic in making strategic right-sizing decisions on labor and investments in 2025.

Summary

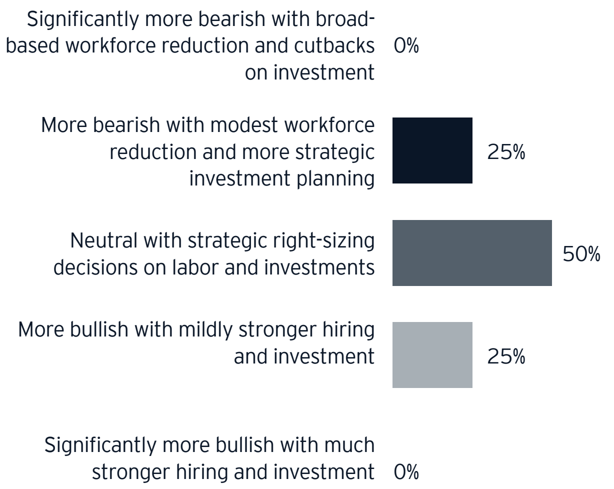
- CFOs are highly focused on the tax outlook for 2025 and beyond, both in the US and globally.
- CFOs are keeping a close eye on trade policies, particularly with China, which remains a key market despite falling consumer confidence.
- CFOs are cautiously optimistic about M&A approvals and anticipate a more transactional and sector-specific approach to antitrust enforcement.

CFO insights from the EY CFO Roundtable: Navigating 2025's economic landscape

Chief financial officers (CFOs) at the EY CFO Roundtable delved into the policy and economic outlook for 2025. The discussion centered on four critical areas: tax policy, trade and China, M&A and antitrust regulation, and sustainability reporting.

These Fortune 250 CFOs – representing each major sector, from financial services to industrials, consumer, technology, energy and health – are cautiously optimistic in making strategic right-sizing decisions on labor and investments in 2025. In fact, when asked relative to the prior six months how they will be investing and managing the workforce in 2025, the majority indicated that they are either neutral (50%) or more "bullish" (25%) with mildly stronger hiring and investment. This is in contrast to six months ago where in the previous edition of the EY CFO roundtable hosted in April 2024, about 70% of CFOs indicated they were slowing down investments and hiring or freezing them altogether.

Q Relative to the prior 6 months, how will you be investing and managing your workforce in 2025?



This roundtable – organized by the EY Center for Executive Leadership and hosted by Julie Boland, EY Americas Area Managing Partner and EY US Managing Partner, and Juan Uro, EY Americas Leader for the EY Center for Executive Leadership – included perspectives from Gregory Daco, EY-Parthenon Chief Economist, as well as Bridget Neill, EY Americas Vice Chair for Public Policy, and John Hallmark, EY US Political and Legislative Leader.

Sharing his perspective on the 2024 election was David Wasserman, Senior Editor & Election Analyst, The Cook Political Report with Amy Walter, and an NBC contributor. Following the 2024 election results, Wasserman highlighted that expected Republican control of Congress would significantly diminish Democratic power. This shift may enable Republicans and the incoming administration to advance a more conservative "America First" agenda, focusing on tax cuts, aggressive trade policies, tariffs and restrictions on outbound investment.

CFO strategies for 2025 tax reform

Overall, the tax reform discussion underscored the significant implications for businesses and the need for CFOs to closely monitor policy developments as the new administration takes shape.

Extending Tax Cut Jobs Act (TCJA) provisions is at the top of the tax issues. There was a consensus that extending TCJA provisions that are set to expire in 2025 will be a top priority for the new administration. However, Wasserman stated that the full US$4.6 trillion price tag associated with extending the TCJA provisions may be too high for some Republicans to support, with the administration focusing more on extending the individual tax cuts, rather than the full package to balance priorities. Other potential priorities mentioned included restoring the state and local tax (SALT) deduction, eliminating taxes on Social Security benefits, and removing taxes on tips.

A critical element regarding potential changes to the TCJA is the percentage of foreign subsidiary income subject to Global Intangible Low-Taxed Income (GILTI). A CFO noted, "Given that a significant portion of our income is earned outside the US, understanding the complexities of GILTI rules is essential." There was a view that the new administration's response highlights a shift away from international frameworks like the OECD's Pillar Two, focusing instead on US competitiveness through a US-centered tax code. Hallmark noted that Congress would need to pass legislation to implement changes similar to Pillar Two, that recent legislative efforts have aimed to reject such international frameworks, and that these efforts are likely to gain traction under a Trump administration. Wasserman concurred and noted that "The new administration may have a more US-centric approach to tax policy, and not focus on international tax frameworks like OECD's Pillar One and Pillar Two. This could create challenges for companies navigating the complex global tax landscape, particularly around issues like double taxation and deductibility."

A CFO from the automotive industry raised a concern about electric vehicle (EV) taxes and the new administration's approach to tariffs, particularly regarding China and Mexico. Hallmark responded on the EV tax issue, stating, "Combining the Inflation Reduction Act (IRA) and the TCJA is strategic, as both are currently under discussion. While the incoming President has expressed a desire to repeal the IRA, many House Republicans favor the existing credits. Prioritizing which IRA provisions might be cut, EV tax credits are likely at the top of the list due to their significance to President Trump. Other business tax provisions and cuts from the TCJA, though smaller in scale, have broader bipartisan support." He continued, "Some provisions, like bonus depreciation, enjoy widespread support across both parties. Unfortunately, EV tax credits do not have the same level of backing from influential Republicans."

CFO insights on preparing for proposed tariffs

The discussion at the roundtable shifted to trade policy, focusing on the Trump administration's proposed tariffs, and China's economic outlook. Proposed tariffs include a 10%-20% baseline on all imports and up to 60% on goods from China. Hallmark noted that these figures are starting points, with significant negotiations expected to carve out exceptions. He added that the president's executive authority in this area reduces the need for congressional approval.

Key points:

- Mexico and the United States-Mexico-Canada Agreement (USMCA): The USMCA is up for review, with the new administration expressing interest in revisiting the agreement. Recent statements from Mexico indicate a willingness to engage in discussions. The US-Mexico and US-Canada relationships will be crucial.
- Global preparedness: Other countries are better prepared this time, unlike during the first Trump administration. The EU's response and China's next moves, especially if decoupling accelerates, will be key factors.
- Sector-specific tariffs: The proposed 10% global tariffs and 60% tariffs on China may not be the final approach. Expect a more transactional nature, targeting specific sectors. For Mexico, trade discussions will also encompass immigration. The USMCA will be evaluated in the context of immigration flows and exports of Chinese-made vehicles. For Canada, key areas will include steel, aluminum and dairy products. Europe will likely see a focus on cars, steel and aluminum.

CFO insights on business in China

The EY CFO roundtable discussed China's economic transition and strategies like brand differentiation and supply chain resilience for doing business there.

Economic transition and low consumer sentiment: A food and beverage CFO highlighted, "The economy is transitioning from an infrastructure-led model to one driven by consumption, but this shift takes time. Key performance indicators suggest that further infrastructure development is limited, and the focus must shift to boosting consumption. Many consumers feel financially secure but are hesitant to spend due to a perceived economic softness. This has led to increased savings and reduced spending, impacting short-term economic performance." Most CFOs concurred, with another CFO from retail indicating, "Similar to others, we see significant challenges on the consumer front."

Brand differentiation: Another food and beverage CFO emphasized the need to distinguish brands from local competitors who replicate products at lower costs. He stressed the importance of adapting business models to stay competitive and focusing on long-term growth despite short-term challenges. He continued, "Despite short-term challenges, growth in China continues unabated, with local competitors expanding aggressively. If you believe in China's potential, as we do, you can't afford to slow down. It's crucial to continually adapt your business model to stay competitive and focus on long-term growth."

Supply chain resilience: An electronics industry CFO noted increased competition from emerging Chinese companies in the semiconductor sector. To mitigate risks, their strategy includes protecting their China business while expanding production to Vietnam, Malaysia, India and Mexico. These regions are attracting significant investment as companies seek more resilient supply chains. However, potential changes in tax policies could impact investment decisions.

Throughout the discussion, the CFOs emphasized the importance of maintaining a long-term perspective and adapting strategies to navigate the competitive and evolving landscape in China.

M&A outlook and antitrust regulation

CFOs expressed a new sense of cautious optimism regarding the approval of major M&A transactions under the new administration.

Regarding antitrust scrutiny, the CFOs had mixed views. Concerns were raised about continued challenges under FTC Chair Lina Khan and the potential for a more aggressive approach. However, some CFOs hoped for a more rational, business-friendly administration that might lead to a more transactional and sector-specific approach to antitrust enforcement, rather than a broad ideological crackdown. This could result in different outcomes for various industries based on their specific circumstances and relationships with the administration.

Global tax claims

The discussion also addressed the impact of government debt and tax policies in the post-COVID era. A CFO from the food and beverage sector highlighted the trend of governments issuing tax claims that require upfront payment, with disputes resolved later. He stated that, "This 'pay first, argue later' approach is prevalent in regions like South America, Africa and Asia and can feel like an unjust tactic to extract funds from companies."

Another CFO added to the discourse, "This issue isn't confined to developing countries. Even mature economies like Australia are adopting more aggressive tax collection practices due to budget pressures. This situation is worsening, not improving. We're seeing governments take more extreme measures, such as France considering retroactive legislation. This creates significant concerns for large businesses, as we often have to pay substantial amounts upfront and then fight to reclaim them."

EU Corporate Sustainability Due Diligence Directive

Another top-of-mind issue for CFOs is the EU Corporate Sustainability Due Diligence Directive and its impact on international companies. A CFO from the energy sector highlighted concerns about the directive's compliance requirements, noting its expected impact and emerging challenges.

A CFO from the food and beverage sector noted: "The amount of work required is substantial. Operating in multiple markets makes data collection and ensuring its accuracy a significant challenge." He added, "We've already started this year with limited assurance reporting. The challenge lies in creating the necessary infrastructure. We now have sustainability controllers in addition to financial controllers, ensuring that our KPIs are auditable. This process involves significant costs and bureaucracy. While compliance is mandatory, the tangible benefits for investors and stakeholders remain unclear. It's a substantial investment in terms of both resources and processes."

In closing, the CFOs at the roundtable agreed that preparing for the directive involves extensive planning and resource allocation, highlighting the need for robust data management systems and clear reporting structures to meet the new regulatory requirements.

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