

2017 TAX POLICY FORECAST SURVEY

Miller & Chevalier



Miller & Chevalier Chartered
The National Foreign Trade Council

EXECUTIVE SUMMARY

2017: A Year of Renewed Hope for Comprehensive Tax Reform

As Congress and the new Trump Administration work to achieve the first comprehensive tax reform effort in over thirty years, U.S. tax executives weighed in with their predictions and concerns for tax policy in the year ahead. The message coming from the 11th annual Miller & Chevalier/National Foreign Trade Council (NFTC) Tax Policy Forecast Survey is a mix of optimism for reform and apprehension of change.

This mix of optimism and apprehension perhaps reflects the attitude of respondents toward the proposal released by the House Republican Tax Reform Task Force in June of 2016 (the "Blueprint"). The Blueprint would address many concerns raised consistently by survey respondents for the past several years, including high statutory tax rates and the taxation of international operations. But the Blueprint would also create new concerns by eliminating corporate tax expenditures and adopting a controversial border adjustment mechanism.

Although respondents clearly believe the Blueprint will be the starting point for reform, they also believe President Donald Trump will have a significant influence on tax policy. In contrast to last year, where President Barack Obama was seen as a distant third to Speaker of the House Paul Ryan and House Committee on Ways and Means Chairman Kevin Brady, respondents see President Trump as having equal influence to Speaker Ryan and more influence than Chairman Brady.

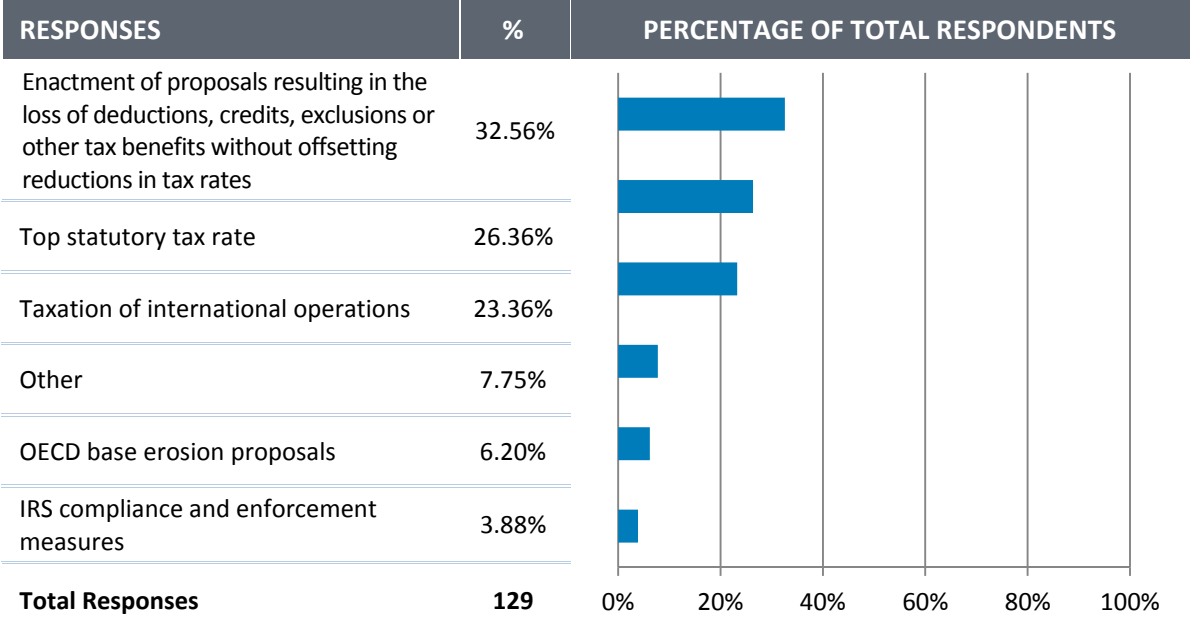
How President Trump will use that influence to shape the direction of reform remains to be seen. The President has moved his positions closer to the proposals laid out in the Blueprint, at least with respect to the proposed individual tax rate structure. But the President still seems to differ with the Blueprint on key issues, and his position on the most controversial proposal, the border adjustment mechanism, is unclear at this time.

Industry executives have confidence that the first comprehensive tax reform legislation in over thirty years is finally within striking distance, but they are rightfully uncertain about what that reform will be.

2017 Tax Policy Forecast Survey Results

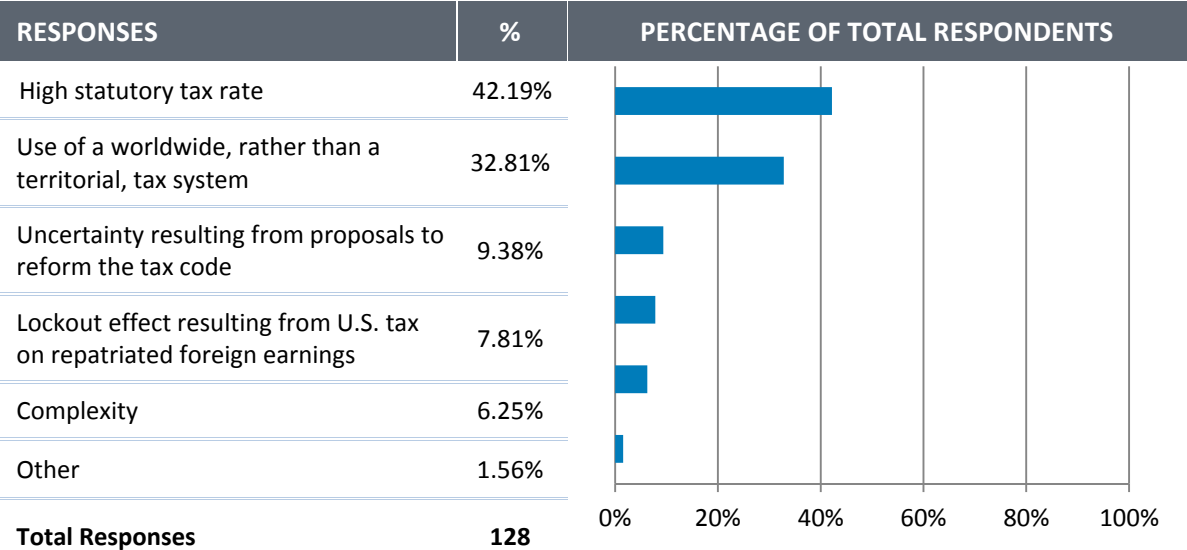
Respondents were asked to complete a short questionnaire designed to measure their thoughts and perspectives on the direction of tax policy for business in 2017. The following charts represent their collective input. The survey methodology can be found at the end of this report.

Q1. What is your top business tax concern in 2017?

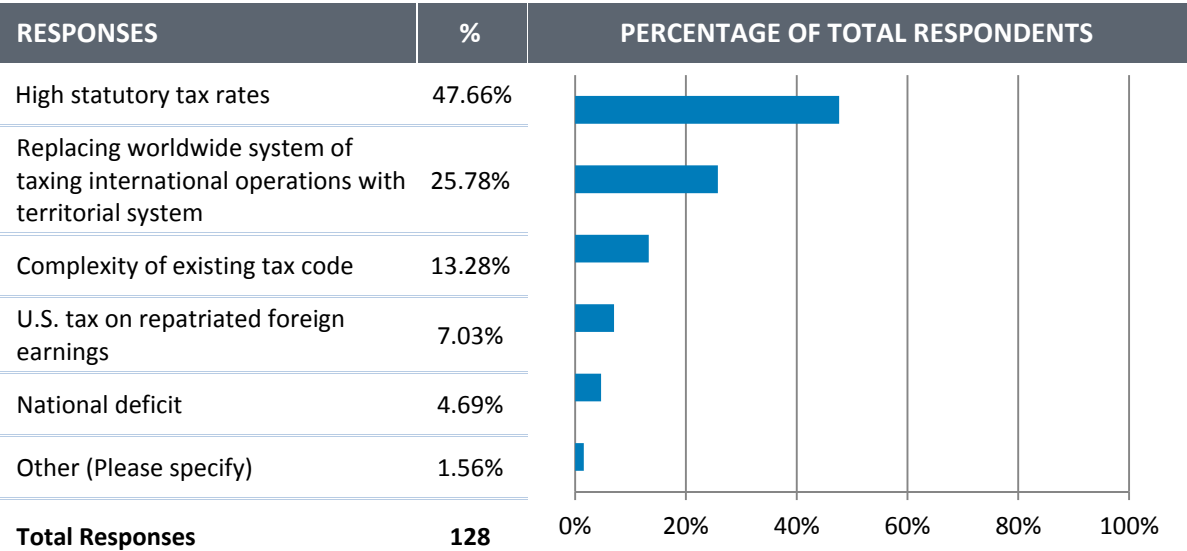


- As in prior years, the enactment of revenue-raising provisions absent offsetting tax rate reductions continues to be the top concern for tax executives. While the Blueprint includes new revenue-raising proposals, such as the border adjustment mechanism and the repeal of the business interest expense deduction, it also promises significant tax rate reduction. The question is whether the tax rate reduction will be large enough to make up for the tax increases resulting from these new revenue raisers.
- Reflecting the priorities of the new leadership in Washington, respondents are less concerned this year with IRS compliance and enforcement measures and OECD base erosion proposals. The Trump Administration has proposed a significant cut to the IRS’s budget, which may reduce the number of audits and other enforcement actions. And although it’s unclear how the Trump Administration feels about the OECD base erosion proposals, it has expressed skepticism toward other multi-lateral agreements.

Q2. What aspect of the current U.S. tax system do you believe has the greatest impact on the global competitiveness of U.S. businesses?

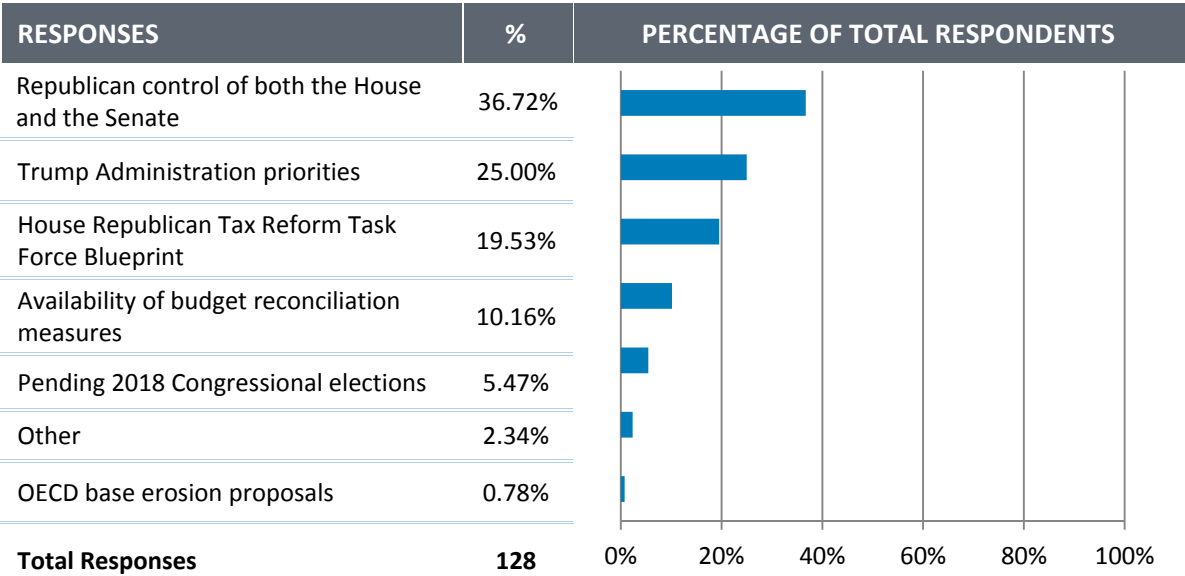


Q3. What is the most significant issue to address through comprehensive tax reform?



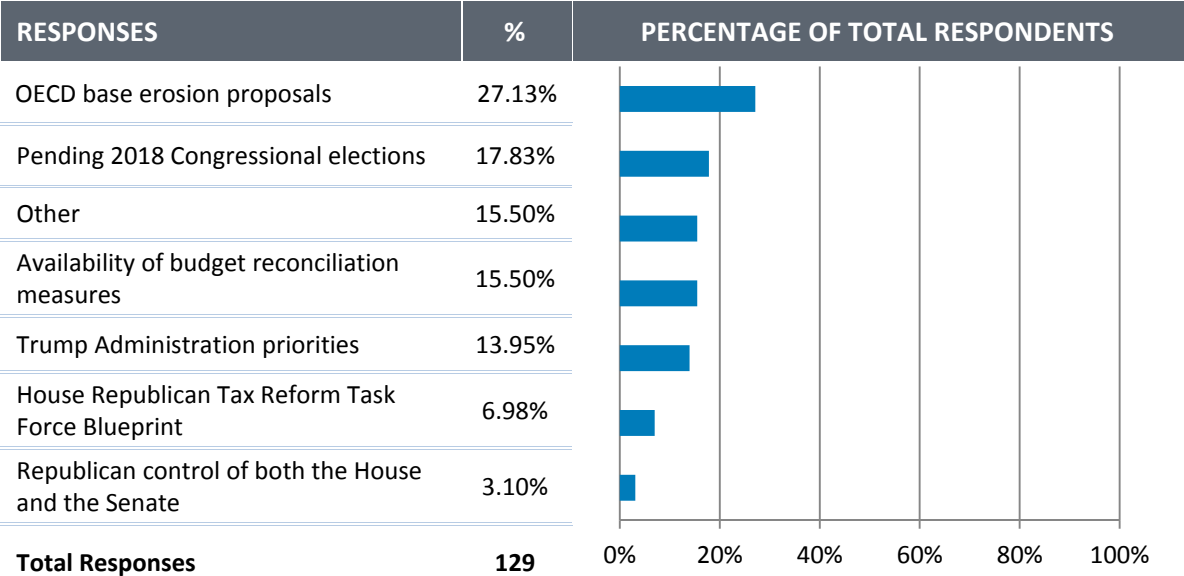
- Although respondents are clearly concerned with proposals in the Blueprint that raise revenue, they also see the need and potential for tax reform: Respondents believe the current statutory tax rates and the taxation of worldwide income impact U.S. competitiveness, and they identify these as the top issues to address in reform. The Blueprint would address these concerns by reducing statutory tax rates for business income and implementing a territorial tax system.

Q4. What single factor will have the most significant positive impact on tax policy in 2017?



- Tax reform has been a longstanding priority of Republican leaders in the House and Senate, so it is not surprising that respondents believe Republican control of both chambers will have the most positive impact on tax policy in 2017. Even if Republicans cannot reach an agreement on tax reform with Democrats, their representation in both chambers offers the possibility of enacting tax reform through budget reconciliation.
- A substantial number of respondents feel the Trump Administration priorities will have the most significant positive impact on tax policy this year. By contrast, only one respondent thought the Obama Administration priorities would have the most significant positive impact in 2016.

Q5. What single factor will have the most significant negative impact on tax policy in 2017?



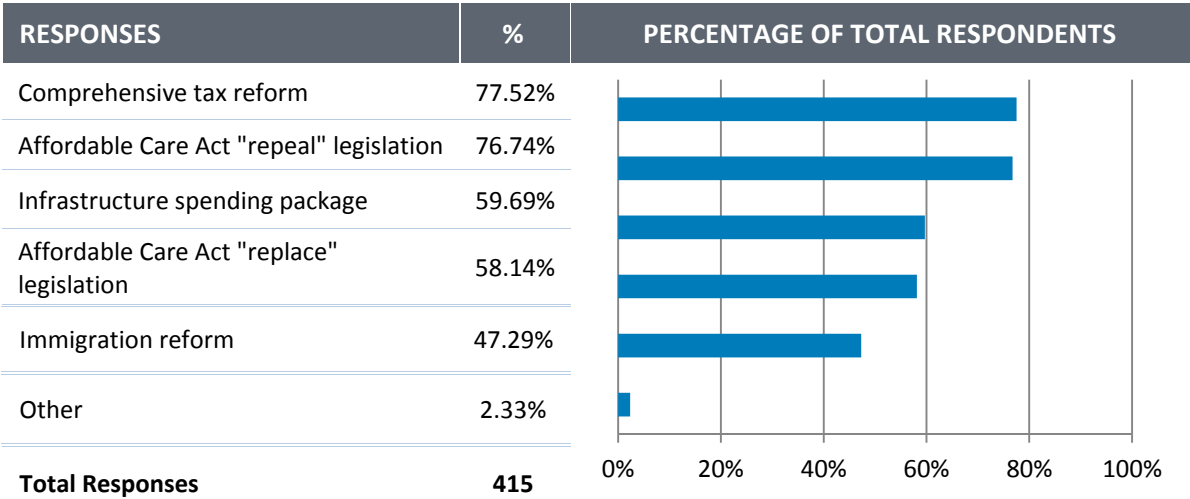
- In the past two years, the Obama Administration topped the list of negative influencers. Without that central point of concern in 2017, responses to the most negative factor were very mixed.
- A significant number of respondents this year marked “Other.” Some of the “Other” comments included Democratic opposition and Congressional gridlock.

Q6. Who will have the most significant impact on tax policy in 2017? (Rank top three with number one being most influential)

RESPONSES	RANK 1	RANK 2	RANK 3	WEIGHTED RANK (SCORE)
Speaker of the House Paul Ryan	55	49	10	1 (273)
President Donald Trump	55	24	30	2 (243)
House Committee on Ways and Means Chairman Kevin Brady	10	27	22	3 (106)
Senate Majority Leader Mitch McConnell	3	17	26	4 (69)
Senate Committee on Finance Chairman Orrin Hatch	4	5	16	5 (38)
Senate Minority Leader Chuck Schumer	1	5	17	6 (30)
Senate Committee on Finance Ranking Member Ron Wyden	0	0	4	7 (4)
House Committee on Ways and Means Ranking Member Richard Neal	0	1	1	8 (3)
House Minority Leader Nancy Pelosi	0	0	1	9 (1)
Other	0	0	1	9 (1)
Total Responses				128

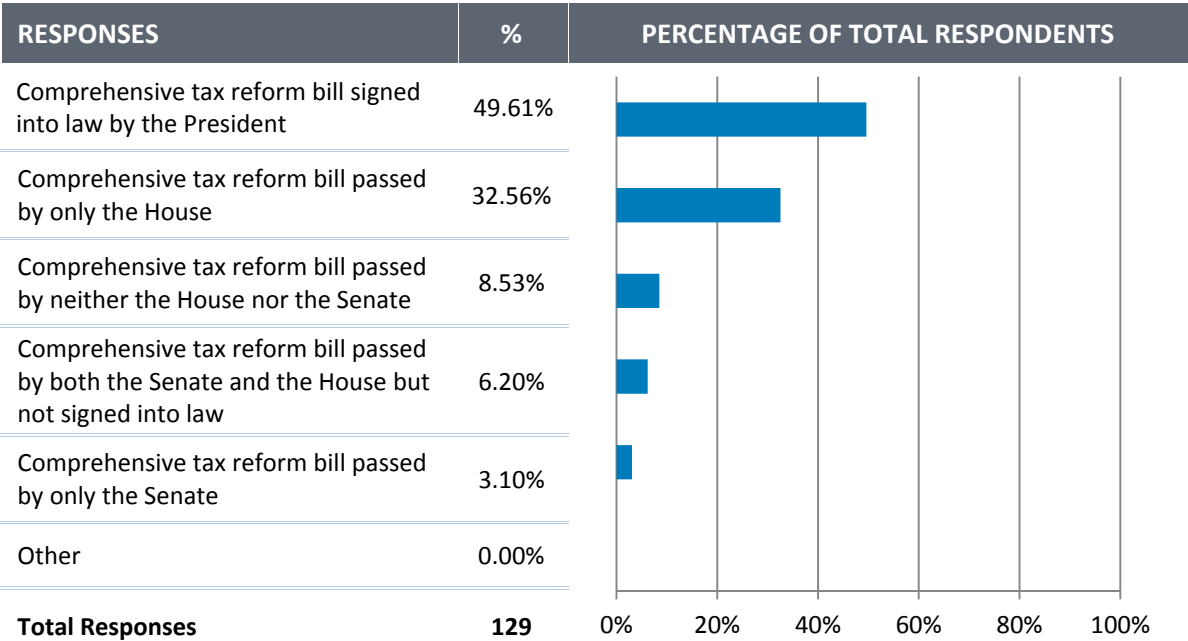
- For the third year in a row, respondents identify Speaker Ryan as having the most significant impact on tax policy. But President Trump came very close to overcoming Speaker Ryan, nudging out Chairman Brady for second overall. What remains to be seen is how well President Trump works with the Republican Congressional leadership and the Republican leaders of the Congressional tax-writing committees.

Q7. What will be the Trump Administration's policy priorities in 2017?



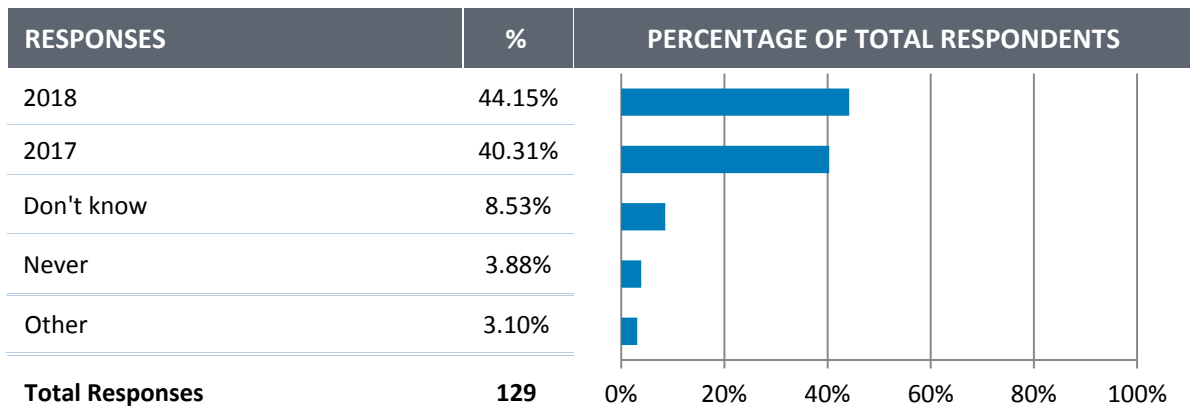
- Respondents recognize that President Trump has prioritized a number of major initiatives in his first year. But, as President Trump recently stated, Congress has committed to enacting Affordable Care Act repeal and replace legislation before tax reform. Given the limitations of the Congressional calendar and these competing priorities, the timing of serious legislative consideration of tax reform is uncertain.

Q8. How far do you expect comprehensive tax reform to advance in 2017?



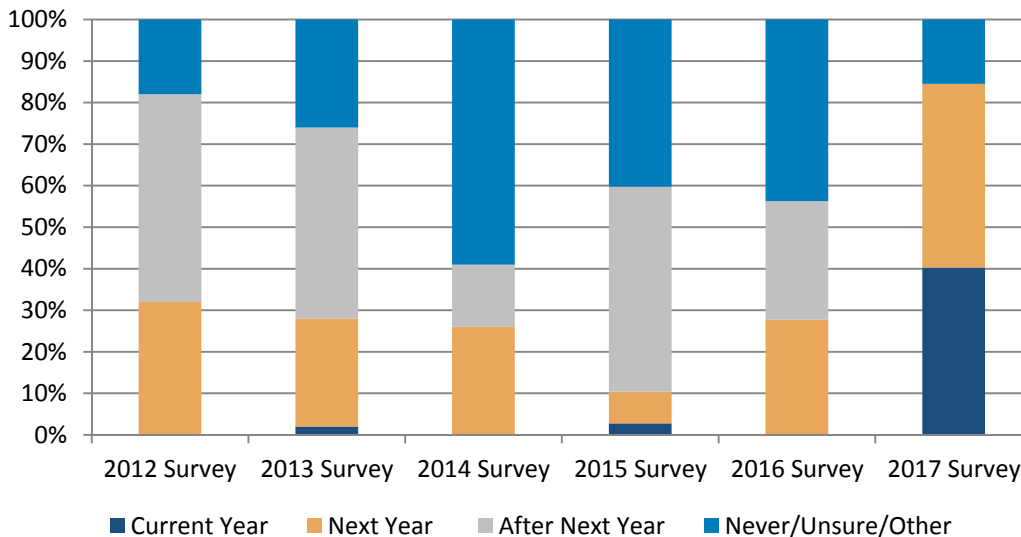
- Half of respondents believe tax reform legislation will pass and be signed into law this year, a reflection of the confidence respondents have that tax reform is a priority for this Congress and the Administration. One-third of respondents think legislation will pass the House but not the Senate, suggesting some concern about the Senate, where there is less consensus as to what tax reform should look like.
- Nevertheless, respondents’ optimism for tax reform is a significant change from 2016. This year’s results reflects the highest level of confidence respondents have expressed since the survey was first conducted in 2006.

Q9. When do you believe comprehensive tax reform will be enacted?

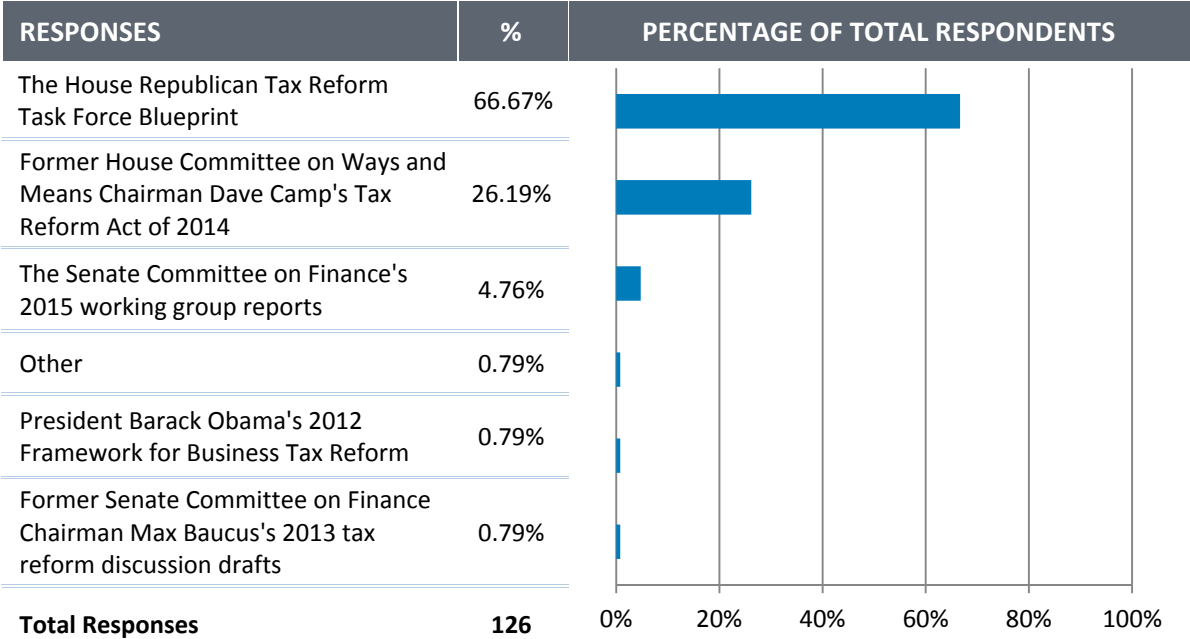


- If reform doesn't happen in 2017, midterm elections could impact any reform effort in 2018. Ten Democratic Senators are up for re-election in states President Trump won, leaving open the possibility of a Republican supermajority in that chamber. Some of those Democrats might feel pressure to support reform.
- At the same time, midterm elections are usually harder on the party in the White House, and 23 House Republicans represent districts that voted for Secretary Hillary Clinton.

Recent survey results over the past several years: When do you believe comprehensive tax reform will be enacted?

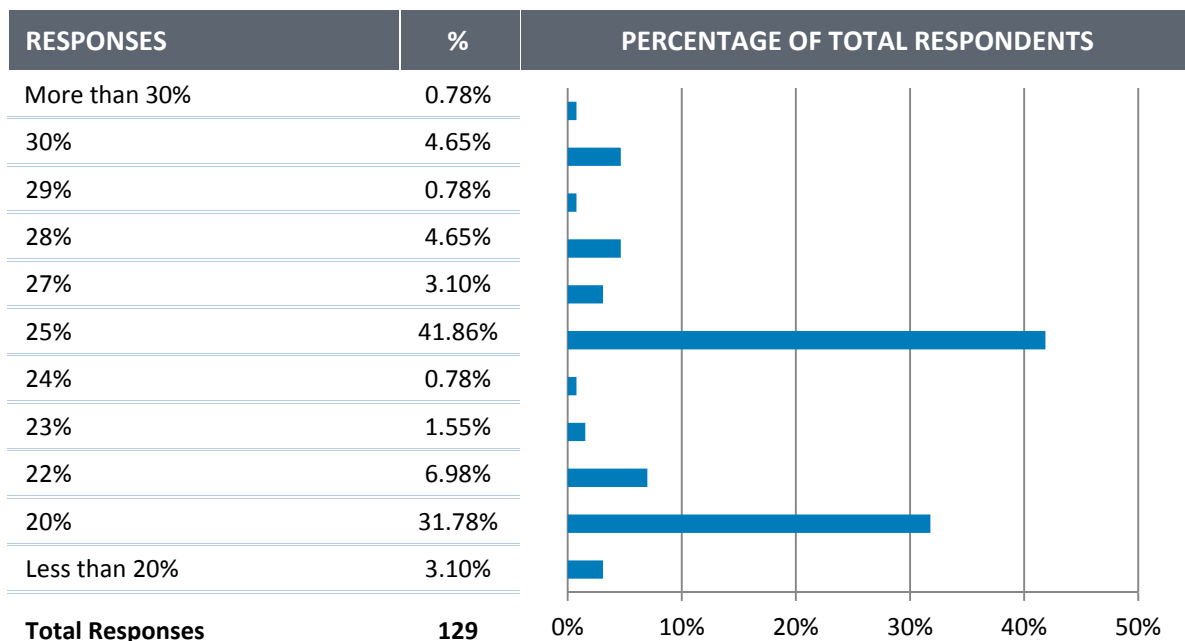


Q10. Which proposal do you believe has most significantly advanced the comprehensive tax reform debate?

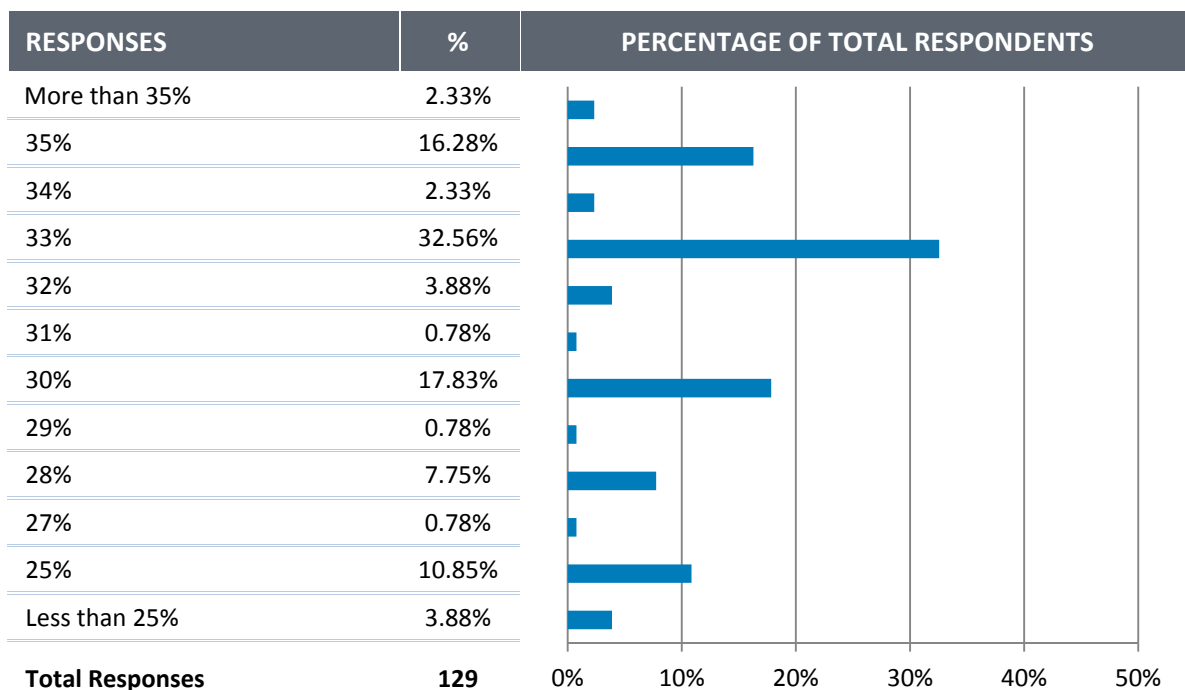


- Despite having just been released in June of 2016, the Blueprint has already overtaken previous proposals as the most significant in advancing the tax reform debate. Originally released as an aspirational political document during a campaign year, the Blueprint has become the framework for reform with tremendous support from both the Speaker of the House and the Chairman of the Committee on Ways and Means.
- While it may not be as relevant today, former Committee on Ways and Means Chairman Camp’s Tax Reform Act of 2014 certainly advanced the debate. His proposal took the political risk of laying out specifically what might be required to broaden the corporate tax base and lower the rate in a revenue-neutral manner.

Q11. If comprehensive tax reform is enacted, what do you think the top statutory CORPORATE tax rate will be?

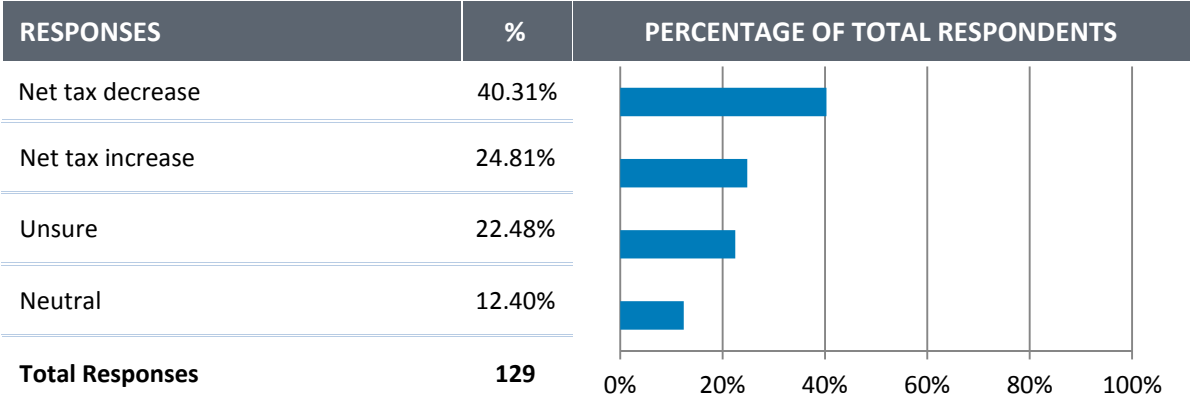


Q12. If comprehensive tax reform is enacted, what do you think the top statutory INDIVIDUAL tax rate will be?



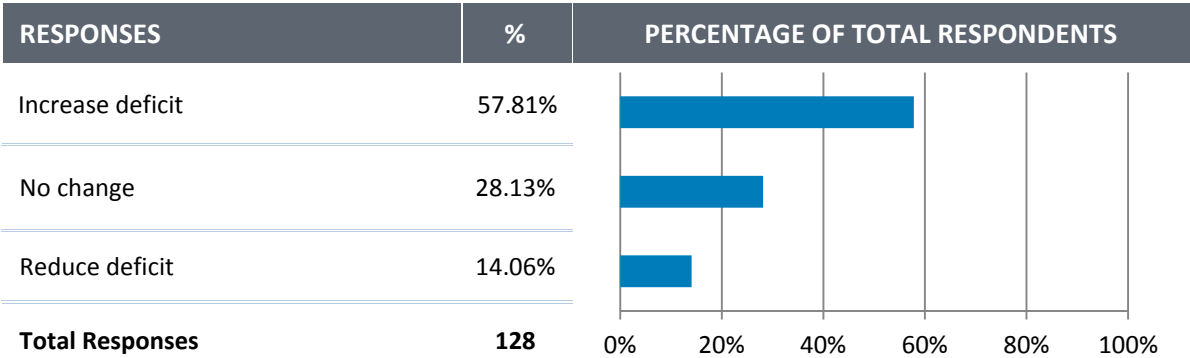
- Most respondents identify 25 percent as the top corporate rate and 33 percent as the top individual rate. A top individual rate of 33 percent is consistent with the Blueprint, suggesting respondents have faith that Congress will be able to reduce the top individual rate to that level.
- The top corporate rate identified by respondents of 25 percent, however, is 5 percentage points higher than what is proposed in the Blueprint, suggesting some skepticism that Congress will be able to enact a rate that low.
- Nevertheless, these predictions are lower than last year, when most respondents anticipated any reform would result in a 28 percent top corporate rate and a 35 percent individual rate. Most respondents in our 2016 survey thought Secretary Clinton would be elected president, which likely would have made any reform contingent on bipartisan compromise.
- The Blueprint proposes a 25 percent rate on pass-through business income – meaning that business income that flows through partnerships and S corporations would likely be taxed at a lower rate than the otherwise applicable individual rate, but at a higher rate than the corporate rate.

Q13. If enacted, what impact do you think the House Republican Tax Reform Task Force Blueprint would have on your business?



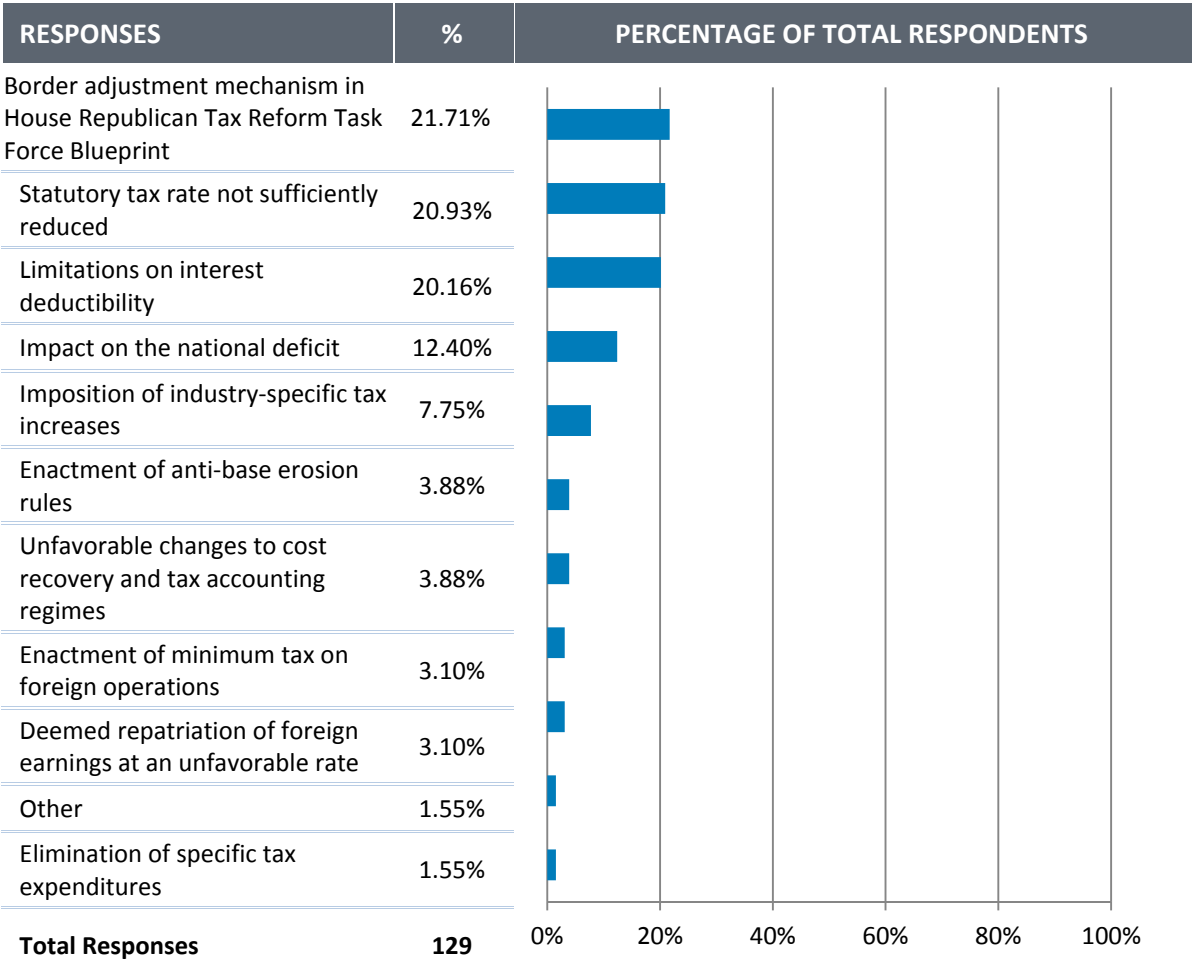
- The impact of the Blueprint to an individual respondent is largely dependent on the impact of the proposed border adjustment mechanism. Net importers will face a tax increase as a result of the border adjustment mechanism, whereas net exporters will face a tax decrease. In many instances, the impact of the border adjustment mechanism on a respondent will exceed the impact of all other tax increase or tax relief measures in the Blueprint.

Q14. If comprehensive tax reform is enacted, how do you believe it will affect the national deficit in the 10-year budget window?



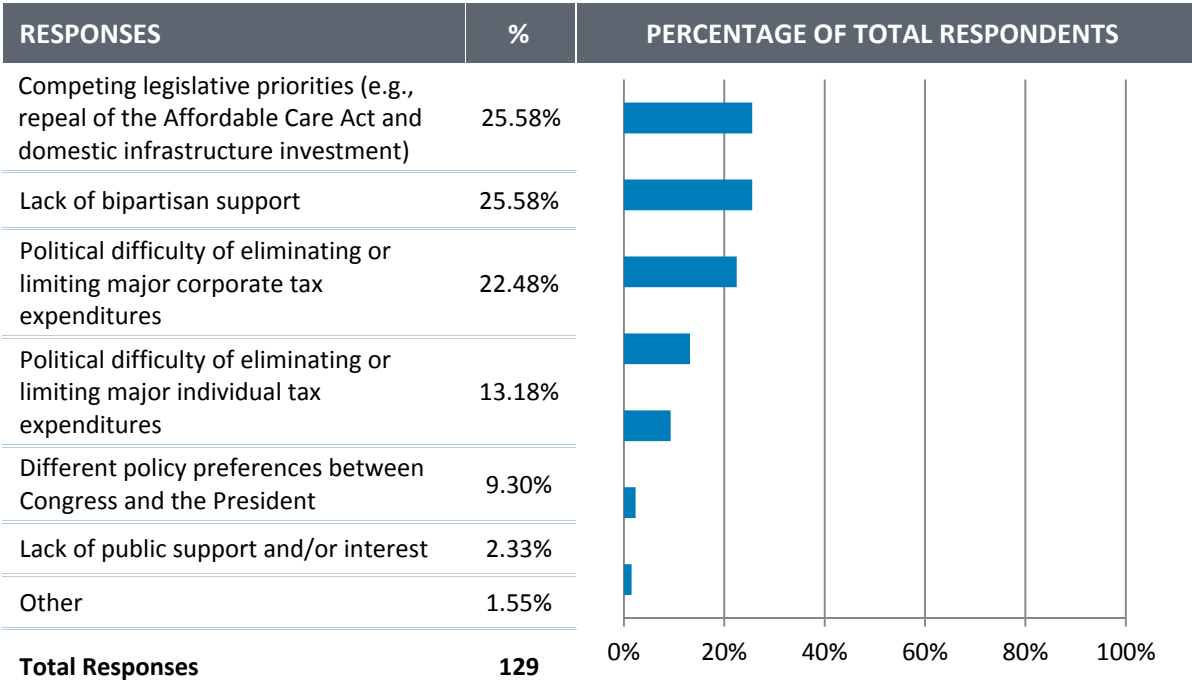
- Most respondents believe tax reform will have a negative impact on the deficit. Respondents might be skeptical that the proposed rate cuts can be achieved in a revenue-neutral bill, or they might believe that some of the provisions necessary to pay for those rate cuts will be pared back before final passage.
- There is significant debate on how the impact on the budget should be determined. House Republicans favor the use of "dynamic" scoring, which considers how legislation will affect the national economy. Similarly, Treasury Secretary Steven Mnuchin recently stated that the Trump Administration "fundamentally believes in dynamic scoring." But the status of "dynamic" scoring is less clear in the Senate, which is particularly important given the potential that tax reform legislation will be considered under a budget reconciliation measure such that it cannot lose revenue outside the ten-year budget window.
- In the 2016 survey, almost twice as many respondents believed tax reform would reduce the deficit, and half as many believed it would increase the deficit. Like the top rates, this change from 2016 to 2017 may reflect the fact that most respondents thought the results of the 2016 election would require that tax reform be enacted by means of bipartisan compromise.

Q15. What is your greatest concern with respect to comprehensive tax reform?



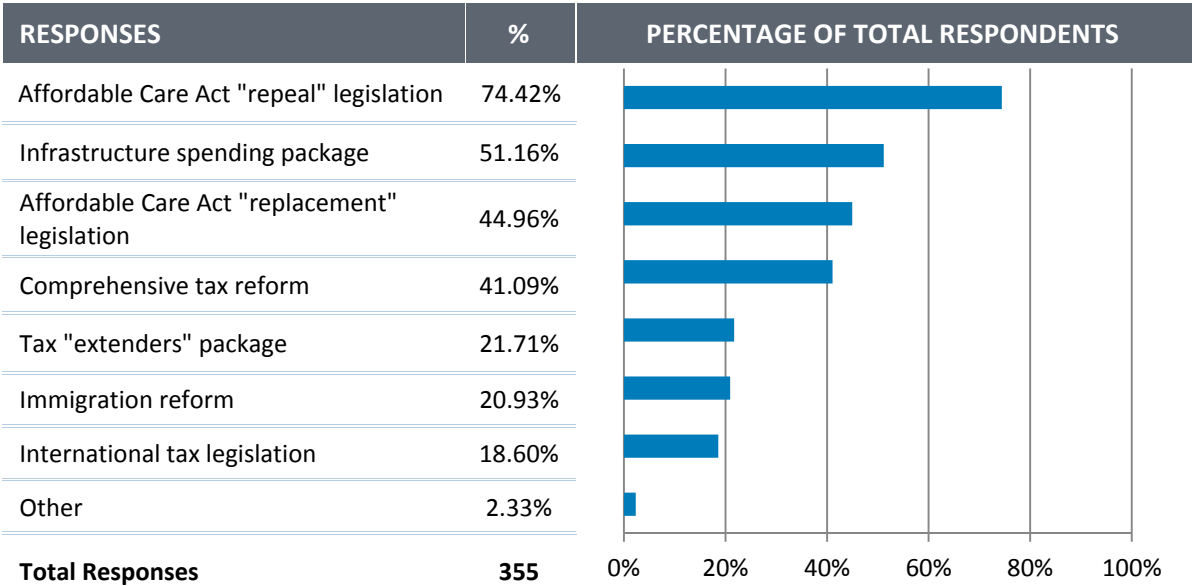
- Tax executives say their top concern with respect to reform is the border adjustment mechanism in the Blueprint, followed closely by an insufficient reduction in the statutory rate and limits on interest deductibility. This may not be surprising, considering that the border adjustment and the elimination of interest deductibility are the two proposals in the Blueprint that raise the most revenue.

Q16. What do you believe is the greatest impediment to the enactment of comprehensive tax reform?



- Respondents disagree on what stands as the greatest impediment to comprehensive reform. An almost even number of respondents identify the lack of bipartisan support, competing legislative priorities and the political difficulty of eliminating major corporate tax expenditures as the biggest impediment to reform.
- Considering Republicans control both chambers and the White House, it may be surprising that 26 percent of tax executives see the lack of bipartisan support as the greatest impediment to reform. However, Republicans do not have a filibuster-proof majority in the Senate. Although they can use reconciliation to pass a bill with a simple majority, reconciliation comes with limitations. Some respondents may think that a bipartisan effort, like the effort that prevailed in 1986, will be necessary.

Q17. What major legislation do you expect to be enacted into law in 2017?



- When this survey was conducted in late January, more respondents expected a major infrastructure package to pass in 2017 (51 percent) than tax reform (41 percent). Although President Trump has continued to promote infrastructure legislation, there has been very little support from Congressional Republicans for such a measure.

Methodology

In January 2017, Miller & Chevalier and the NFTC distributed a survey via email to leading business tax executives, including vice presidents, directors and managers of tax, at a broad cross-section of U.S.- and foreign-based multinational companies.

Industries surveyed include manufacturing, oil and gas, insurance, utilities, financial institutions, automotive, healthcare, defense, hospitality, and agriculture, among others. The survey was completed by 133 respondents.

Due to rounding and questions where respondents could select more than one answer, certain final percentages may not equal 100 percent. Some minor edits were made to selected quotes to improve readability.

We appreciate and thank those who contributed their views and shared their experiences.

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