

TAX POLICY FORECAST SURVEY

FEBRUARY 2008

MILLER
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Miller & Chevalier Chartered

Executive Summary

With the upcoming Presidential election, the business community can expect the candidates and Congress to debate tax policy issues, including the potential for proposals that reduce or increase business-related taxes.

In light of the critical issues involved, **Miller & Chevalier's 2008 Tax Policy Forecast Survey** was designed to measure the current perspectives and attitudes of leading corporate tax executives on the direction of tax policy in 2008. This follow-up to Miller & Chevalier's 2007 Tax Policy Forecast Survey included respondents from a broad cross-section of large U.S.-based companies, foreign-based multinationals and major trade associations. Respondents to the second annual survey said they don't see any evidence that fundamental tax reform is right around the corner, but they are keeping a close eye on a number of current issues — the possible need to fund alternative minimum tax ("AMT") relief among them — that potentially will impact their industries. Longer-term, respondents are calling for greater simplification, a lower corporate tax rate and international tax policies that will help their companies stay more competitive in the global business environment.

Highlights of Miller & Chevalier's 2008 Tax Policy Forecast Survey include:

- Respondents named management of the effective tax rate (28%) and FIN 48 issues (21%) as two of their **top business tax concerns in 2008**, indicating that corporate tax executives are spending an increasing amount of time on financial reporting matters.
- Respondents overwhelmingly believe there is a need for a **comprehensive overhaul of the current tax structure**, indicative of the ongoing debate on tax reform and simplification.
 - Of those respondents identified as Democrats, 57% think the current tax structure for business income is in need of comprehensive reform, while 72% of Republican respondents think reform is necessary.
- 81% of respondents think **Congress will focus on the AMT in 2008**.
 - A number of the other most named areas of tax focus – taxation of hedge funds and other investment vehicles (57%) and further limitations on executive compensation (42%) – may be items that Congress considers if it decides to fund AMT relief.
- Respondents believe a one-year AMT patch (84%) and a one-year extenders package (68%) are the most likely pieces of tax legislation to be enacted in the coming year. **Thus, apart from legislation extending current law, respondents do not expect an active tax agenda in Congress in 2008.**
- Respondents believe **Congress is likely to increase taxation** of hedge funds and other investment vehicles (68%), codify the economic substance doctrine (63%) and increase in the taxation of international operations (59%) in order to fund its tax agenda in 2008.
- Republicans and Democrats alike view **Mitt Romney as the candidate to have the most favorable tax policy for business income**.
 - Of those respondents identified as Democrats, 50% said John Edwards would have the least favorable tax policy for business income, followed by Mike Huckabee and Barack Obama at 13% each.
 - Of those respondents identified as Republicans, 36% said John Edwards would have the least favorable tax policy for business income, followed by Hillary Clinton with 33%.







Verbatims

Respondents were asked to share their thoughts on legislative tax issues in an open forum for comment and feedback. The following represent select verbatims received from survey respondents.





- *The U.S. needs to lower the corporate tax rate to compete with other industrialized countries.*
- *I would trade section 199, [the] R&D credit and perhaps other benefits in exchange for a lower corporate income tax rate.*
- *The reliance on the corporate income tax as a major revenue source is going to disadvantage investment in the U.S. more and more. It should be replaced, likely with a consumption tax.*
- *We need a lower rate and less complexity. Section 199 and many other provisions are way too complex. Additionally, greater certainty from the IRS would be helpful.*
- *More has to be done to lower the U.S. corporate tax rate to enable U.S. corporations to compete more effectively in world markets. In addition, Congress needs to extend tax incentives set to expire at the end of 2008 in order to help stimulate more development in new renewable energy resources.*
- *I'm concerned about the lack of restraint by the IRS, Congress, and the SEC with respect to public disclosure of company tax matters, [the] desire to review confidential work papers, [and] codification of economic substance . . . The cost of tax compliance for companies (SEC, FIN 48, implementing the Schedule M-3) is out of control. Companies should spend their resources on creating value, not creating reams of paper to satisfy regulators.*
- *The U.S. tax rate is too high. We need to simplify by eliminating complexity, by reducing the rate and eliminating non-productive incentives.*
- *Decrease the corporate tax rate to make the U.S. more attractive globally and reduce some of the complexity.*
- *The overall corporate tax regime, including the taxation of benefits, is unduly complex and should be simplified.*
- *Drastic measures [are needed] to broaden the tax base (repeal the R&D credit, Section 199, LIFO) and reduce corporate tax rates would be a great step to make the U.S. more globally competitive.*

2008 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 2008. The following charts represent the collective input of 165 respondents to the survey. A full overview of the survey methodology can be found at the end of this report.



1. What is your top business tax concern for the coming year?				
Responses	Total	%	Percentage of total respondents	
Taxation of international operations	34	20.86%		
Research and experimentation and other tax credits	14	8.59%		
Employee benefits and executive compensation	8	4.91%		
Tax-efficient structuring of transactions	27	16.56%		
Management of effective tax rate	46	28.22%		
Financial statement disclosure issues ("FIN 48")	34	20.86%		
Total Responses	163		20%	40% 60% 80% 100%

- Respondents named management of the effective tax rate (28%) and FIN 48 issues (21%) as **two of their top business tax concerns in 2008**, indicating that corporate tax executives are spending an increasing amount of time on financial reporting matters.
 - Not surprisingly, corporate tax executives are calling for greater simplification of the tax system, which would alleviate some of their financial reporting burdens.

2. What is the single largest tax burden to your business?				
Responses	Total	%	Percentage of total respondents	
Federal income taxes	120	73.62%		
State and local income taxes	11	6.75%		
Foreign income taxes	20	12.27%		
Other taxes	12	7.36%		
Total Responses	163		20%	40% 60% 80% 100%











- A significant majority of respondents (74%) point to federal income taxes as the largest tax burden to their business.
- Not surprisingly, of those respondents who said their top business tax concern for the coming year is taxation of international operations, 41% named foreign income taxes as the single largest burden to their business (compared to 12% of all respondents).

3. Do you believe the current tax structure for business income is in need of comprehensive reform?

Responses	Total	%	Percentage of total respondents
Yes	107	66.05%	
No	55	33.95%	
Total Responses	162		20% 40% 60% 80% 100%










- Respondents' calls for a comprehensive overhaul of the current tax structure are indicative of the ongoing debate on tax reform and simplification.
- Of those respondents identified as Democrats, 57% think the current tax structure for business income is in need of comprehensive reform (compared to 66% of all respondents and 72% of Republican respondents).

4. What areas of tax policy will Congress focus on in 2008?

Responses	Total	%	Percentage of total respondents
Oversight and scrutiny of international operations	83	51.23%	
Oversight and scrutiny of the IRS	22	13.58%	
Comprehensive reform of the tax code	20	12.35%	
International business competitiveness	63	38.89%	
Taxation of hedge funds and other investment vehicles	93	57.41%	
AMT relief	131	80.86%	
Taxation of savings and investment income	27	16.67%	
Extension of the Bush tax cuts	56	34.57%	
Further limitations on executive compensation	68	41.98%	
Other (please specify)	13	8.02%	
Total Responses	576		20% 40% 60% 80% 100%










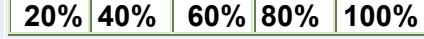
- 81% of respondents think **Congress will focus on the AMT in 2008.**
 - A number of the other most named areas of tax focus – taxation of hedge funds and other investment vehicles (57%) and further limitations on executive compensation (42%) – may be items that Congress considers if it decides to fund AMT relief.
- Of those respondents who say their top business tax concern for the coming year is taxation of international operations, 21% think Congress will focus on IRS oversight and 21% think Congress will focus on comprehensive tax code reform in the coming year (compared to 13% and 12% of all respondents).

5. What areas of tax policy will the Presidential candidates focus on in the campaign?

Responses	Total	%	Percentage of total respondents
Comprehensive reform of the tax code	100	62.11%	
International business competitiveness	66	40.99%	
Taxation of hedge funds and other investment vehicles	40	24.84%	
AMT relief	109	67.70%	
Taxation of savings and investment income	38	23.60%	
Extension of the Bush tax cuts	68	42.24%	
Further limitations on executive compensation	57	35.40%	
Other (please specify)	15	9.32%	
Total Responses	493		

- When it comes to their election-year tax platforms, respondents believe the Presidential candidates will talk about plans for AMT relief (68%), comprehensive tax code reform (62%), and extension of the Bush tax cuts (42%).
 - Not surprisingly, these are all issues of concern primarily to individual voters, rather issues of concern to the business community.





6. Which Presidential candidate do you think would have the most favorable tax policy for business income?

Responses	Total	%	Percentage of total respondents
Clinton	5	3.14%	
Edwards	0	0%	
Giuliani	19	11.95%	
Huckabee	14	8.81%	
McCain	32	20.13%	
Obama	4	2.52%	
Romney	61	38.36%	
Thompson	19	11.95%	
Other (please specify)	5	3.14%	
Total Responses	159		

- Of those respondents identified as Republicans, 34% think Mitt Romney would have the most favorable tax policy for business income followed by John McCain (21%) and Rudy Giuliani (15%).









- Of those respondents identified as Democrats, 40% think that Mitt Romney would have the most favorable tax policy for business income, followed by John McCain and Hillary Clinton at 10% each.

7. Which Presidential candidate do you think would have the least favorable tax policy for business income?

Responses	Total	%	Percentage of total respondents
Clinton	49	30.43%	
Edwards	65	40.37%	
Giuliani	0	0%	
Huckabee	10	6.21%	
McCain	1	0.62%	
Obama	32	19.88%	
Romney	1	0.62%	
Thompson	0	0%	
Other (please specify)	3	1.86%	
Total Responses	161		20% 40% 60% 80% 100%









- Of those respondents identified as Democrats, 50% said John Edwards would have the least favorable tax policy for business income, followed by Mike Huckabee and Barack Obama at 13%. (Overall, respondents pointed to John Edwards at 40%, Hillary Clinton at 30% and Barack Obama at 20%.)
 - Republicans named John Edwards (36%), Hillary Clinton (33%), and Barack Obama (22%).
- Of those respondents who say their top business tax concern for the coming year is taxation of international operations, 53% believe John Edwards would have the least favorable tax policy for business income, followed by Hillary Clinton with 15% (this compares to a much closer 40% for John Edwards and 30% for Hillary Clinton overall).

8. Which of the following business tax revenue sources do you believe will be among the leading sources tapped to pay for Congressional tax initiatives?

Responses	Total	%	Percentage of total respondents					
Elimination or reduction of LIFO inventory benefits	74	45.40%						
Elimination or reduction of the domestic manufacturing deduction under section 199	95	58.28%						
Increase in the taxation of international operations (e.g., reduction in foreign tax credits, end deferral or transfer pricing changes)	97	59.51%						
Reduction of interest, rent or royalty deductions	10	6.13%						
Codification of the economic substance doctrine	104	63.80%						
Increase in the taxation of hedge funds or other investment vehicles	113	69.33%						
Executive deferred compensation	73	44.79%						
Other (please specify)	5	3.07%						
Total Responses	571		<table border="1"> <tr> <td>20%</td> <td>40%</td> <td>60%</td> <td>80%</td> <td>100%</td> </tr> </table>	20%	40%	60%	80%	100%
20%	40%	60%	80%	100%				

- In the 2007 Miller & Chevalier Tax Policy Forecast Survey, revenue sources considered most likely to be tapped by Congress to pay for tax initiatives were: codification of the economic substance doctrine (64%), increase in the taxation of international operations (62%), and elimination or reduction in the domestic manufacturing deduction under section 199 (36%).
 - In 2008, the top revenue sources named are similar: increase in the taxation of hedge funds or other investment vehicles (68%, *note that this option was not included in the 2007 survey*), codification of the economic substance doctrine (63%) and increase in the taxation of international operations (59%).
 - Almost twice as many respondents in 2008 thought that Congress would look elimination or reduction of LIFO benefits (45% in 2008, 25% in 2007) and elimination or reduction in the domestic manufacturing deduction under section 199 (36% in 2007, 58% in 2008).
- Of those respondents who say their top business tax concern for the coming year is taxation of international operations, 74% believe Congress will increase the taxation of international operations to pay for tax initiatives (compared to 59% overall).
- 23% of Democrats think Congress will look to executive deferred compensation (compared to 44% of all respondents).





9. Which of the following business tax revenue sources do you believe would have the most unfavorable impact on your business?

Responses	Total	%	Percentage of total respondents					
Elimination or reduction of LIFO inventory benefits	13	8.13%						
Elimination or reduction of the domestic manufacturing deduction under section 199	30	18.75%						
Increase in the taxation of international operations (e.g., reduction in foreign tax credits, end deferral or transfer pricing changes)	60	37.50%						
Reduction of interest, rent or royalty deductions	20	12.50%						
Codification of the economic substance doctrine	9	5.63%						
Increase in the taxation of hedge funds or other investment vehicles	6	3.75%						
Executive deferred compensation	15	9.38%						
Other (please specify)	7	4.38%						
Total Responses	160		<table border="1"> <tr> <td>20%</td> <td>40%</td> <td>60%</td> <td>80%</td> <td>100%</td> </tr> </table>	20%	40%	60%	80%	100%
20%	40%	60%	80%	100%				

- In 2007, respondents thought the following potential tax revenue sources would have the most unfavorable impact on their business: increase in the taxation of international operations (27%), elimination or reduction in the domestic manufacturing deduction under section 199 (21%), and reduction of interest, rent or royalty deductions (20%).
 - In 2008, top concerns came in the same order, but with a broader spread between each: increase in the taxation of international operations (36%), elimination or reduction in the domestic manufacturing deduction under section 199 (18%), and reduction of interest, rent or royalty deductions (12%).





- Although 64% of respondents think the economic substance doctrine will be codified, only six percent think it will have the most unfavorable effect on their business. This sentiment is likely primarily attributable to the revised economic substance doctrine proposal passed by the Senate last year that contained a number of taxpayer-favorable changes.

10. Do you believe Congress will press for more IRS scrutiny of the tax returns of business taxpayers with respect to:

Responses	Total	%	Percentage of total respondents
International business operations	114	72.15%	
Financial instruments and transactions	90	56.96%	
Joint ventures and partnerships	50	31.65%	
Employee benefits and executive compensation, including stock options	69	43.67%	
Total Responses	323		20% 40% 60% 80% 100%






- In 2007, respondents said Congress would press for more IRS scrutiny of tax returns of business taxpayers with respect to: employee benefits and executive compensation (92%), international business operations (86%), financial instruments and transactions (77%), and joint ventures and partnerships (64%).
 - Responses shifted somewhat in 2008 with the most concern directed at international business operations (69%), followed by financial instruments and transactions (55%), employee benefits and executive compensation (42%), and joint ventures and partnerships (30%).
- Of those respondents identified as Democrats, 20% think Congress will press for more IRS scrutiny of business tax returns with respect to employee benefits and executive compensation. 49% of Republicans think Congress will look to this source.

11. Do you believe foreign taxing jurisdictions will more greatly scrutinize the tax returns of business taxpayers with respect to:

Responses	Total	%	Percentage of total respondents
International business operations	117	79.59%	
Financial instruments and transactions	58	39.46%	
Joint ventures and partnerships	46	31.29%	
Employee benefits and executive compensation, including stock options	10	6.80%	
Total Responses	231		20% 40% 60% 80% 100%












- Corporate tax executives are overwhelmingly concerned about increased scrutiny of international business operations (80%). This sentiment is likely driven by the need for these businesses to be competitive in the global marketplace.

12. In which jurisdictions?

Responses	Total	%	Percentage of total respondents
Europe	121	87.05%	
Asia	79	56.83%	
Middle East	19	13.67%	
Central and South America	36	25.90%	
Mexico/Canada	58	41.73%	
Total Responses	313		20% 40% 60% 80% 100%

- Of those who believe foreign taxing jurisdictions will more greatly scrutinize business tax returns with respect to international business operations:
 - 80% think they will be scrutinized in Europe, 86% in Asia, 84% in the Middle East, 94% in Central and South America, and 86% in Mexico and Canada.
- Of those who believe foreign taxing jurisdictions will more greatly scrutinize business tax returns with respect to financial instruments and transactions:
 - 40% think they will be scrutinized in Europe, 35% in Asia, 26% in the Middle East, 42% in Central and South America, and 45% in Mexico and Canada.
- Of those who believe foreign taxing jurisdictions will more greatly scrutinize business tax returns with respect to joint ventures and partnerships:
 - 36% think they will be scrutinized in Europe, 33% in Asia, 37% in the Middle East, 28% in Central and South America, and 29% in Mexico and Canada.
- Of those who believe foreign taxing jurisdictions will more greatly scrutinize business tax returns with respect to employee benefits and executive compensation:
 - 7% think they will be scrutinized in Europe, 8% in Asia, 11% in the Middle East, 11% in Central and South America, and 10% in Mexico and Canada.

13. What tax legislation do you expect to be enacted into law in 2008?

Responses	Total	%	Percentage of total respondents
One-year "extenders" package	112	67.88%	
Two-year "extenders" package	25	15.15%	
One-year AMT "patch"	139	84.24%	
Education tax legislation	12	7.27%	
Energy tax legislation	45	27.27%	
Farm tax legislation	19	11.52%	
Comprehensive reform of the tax code	0	0%	
Codification of the economic substance doctrine	62	37.58%	
No tax legislation	11	6.67%	
Other (please specify)	3	1.82%	
Total Responses	428		

- Respondents believe a one-year AMT patch (84%) and a one-year extenders package (68%) are the most likely pieces of tax legislation to be enacted in the coming year. **Thus, apart from legislation extending current law, they do not expect an active tax agenda in Congress in 2008.**
 - Only 15% of respondents believe a two-year extenders package will be enacted in 2008, indicating that most respondents believe the extenders package will be enacted for 2008 but expire again at the end of the year.
- Despite the 66% of respondents who said in question three that there is an immediate need for comprehensive reform of the tax code, not one responder thinks this overhaul is likely to occur in 2008.

14. In what industry is your business?

Responses	Total	%	Percentage of total respondents				
Agriculture/Food	4	2.44%					
Automobile	2	1.22%					
Chemical	4	2.44%					
Construction	3	1.83%					
Defense and Other Heavy Industry	7	4.27%					
Financial Institution/Banking	13	7.93%					
Healthcare	9	5.49%					
Information Technology/Software Provider	9	5.49%					
Insurance	8	4.88%					
Manufacturing	32	19.51%					
Restaurant/Entertainment	5	3.05%					
Oil & Gas	21	12.80%					
Other (please specify)	47	28.66%					
Total Responses	164		20%	40%	60%	80%	100%

15. Which of the following best describes you?

Responses	Total	%	Percentage of total respondents				
CEO	1	0.63%					
CFO	4	2.50%					
COO	0	0%					
President	0	0%					
Vice President	39	24.38%					
Director or Manager of Tax	69	43.13%					
Government Affairs Professional	10	6.25%					
In-House Counsel	27	16.88%					
Other (please specify)	10	6.25%					
Total Responses	160		20%	40%	60%	80%	100%

16. What is your political affiliation?

Responses	Total	%	Percentage of total respondents				
Democrat	30	23.26%					
Republican	67	51.94%					
Other (please specify)	32	24.81%					
Total Responses	129		20%	40%	60%	80%	100%

Methodology

In January of 2008, Miller & Chevalier distributed a survey via e-mail to 2,138 leading tax and finance executives, including Vice Presidents, Managers, and Directors of Tax at a broad cross-section of large U.S.-based and foreign-based multinational corporations and major trade associations. The survey was completed by 165 respondents, representing a 7.72 percent response rate.

The survey was open from January 8 through January 18. Presidential candidates Fred Thompson, John Edwards, and Rudy Giuliani were included on questions 6 and 7, and withdrew from the race after the survey closed.

Due to rounding, all percentages used in all questions may not add to 100 percent. A few small edits were made to select verbatim responses to correct spelling and verb tense. A question asking for the location of respondents was omitted due to length, but is available by request.

Percentages added may exceed 100 on questions 4, 5, 8, 10, 11, 12 and 13 since a participant could select more than one answer for those questions.