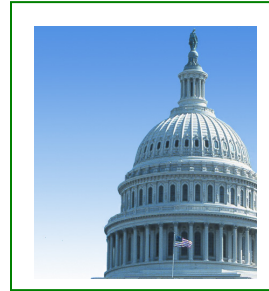


Tax Policy Forecast Survey

February 2007



MILLER & CHEVALIER
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Executive Summary

With the recent change in control of the Congress and the adoption of PAYGO budget rules, there will be a need to fund new tax priorities, such as providing alternative minimum tax relief. As a result, the business community is concerned that the House Ways and Means and the Senate Finance Committees will look towards revenue raisers that will have a significant impact on corporate taxpayers. The first bills out of the gate in the 110th Congress demonstrate the need for businesses to be fully engaged as legislation advanced in both the House and Senate contain a number of revenue-raising provisions.

In light of these developments, the **Miller & Chevalier 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 the new Congress. The respondents, from a broad cross-section of Fortune 100 companies and U.S.-based multinationals, told us 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 individual policy decisions that have potential for impact on their industries. While they accept the fact that revenue offsets will be required in a PAYGO environment, they have not yet determined which revenue raisers are likely to affect their organizations in particular and, thus, are not very far along in deciding what their response will be to the process.

Highlights of Miller & Chevalier's 2007 survey include:

- A majority of respondents (68 percent) believe the change in Congressional control will have a significant impact on tax policy for business. 83 percent of those respondents think that impact will be unfavorable to domestic business and 90 percent think it will be unfavorable to international business.
- More than half of all respondents (56 percent) think the change of control in Congress will have a significant impact on their business, indicating that while respondents are not concerned about broad-based tax reform, they are worried that Congress will enact proposals targeted at specific industries.
 - Manufacturers are the least concerned about the impact of the change in Congressional control on their business (42 percent) while oil & gas (80 percent) and financial services (79 percent) respondents are more worried than the respondents as a whole.
- Respondents overwhelmingly believe the change in Congressional control will have an unfavorable impact on international business (84 percent) and that Congress will look to increase taxes on international operations as a source of revenue (62 percent).
 - A number of recently introduced bills include international tax proposals indicating that international businesses may be some of the most likely targets for deriving revenue.
- While most respondents think Congress will look towards codification of the economic substance doctrine (65 percent) and taxation of international operations (62 percent) for additional tax revenue, only nine percent and 28 percent respectively say such changes would have the most unfavorable impact on their business.
 - Some of the legislative proposals are quite broad and businesses may not yet fully understand the scope of what day-to-day transactions they will affect.

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.

- *Anything ... that will impact US taxation of international operations will be closely watched. Look for them to take away benefits from oil companies to encourage alternative fuels, and to pay for other items on their agenda*
- *I'm concerned about the impact on domestic crude oil and natural gas producers through the following: 1) change in agreements for offshore leases; 2) elimination of 24 month g&g amortization for independent producers; and 3) elimination of Section 199 deduction for crude oil and natural gas producers*
- *Big issues in 2007 will be tax rate, depreciable lives, and deduction for executive benefits*
- *Providing AMT relief ... is necessary, however, Congress might fund it inappropriately*
- *Congress may remove incentives that promote domestic energy production and thereby further increase dependence on foreign sources of energy*
- *Eliminate Social Security wage cap to repeal the AMT. Any excess will pay for other tax cuts, such as making the R&E credit permanent*

2007 Tax Policy Forecast Survey Results

Respondents were asked to complete a short questionnaire designed to measure attitudes and perspectives on how the change in Congressional control will impact tax policy for business. The following charts represent the collective input of 130 respondents to the survey, or roughly an 8 percent response rate. A full overview of the survey methodology can be found at the end of this report.

1. What impact do you believe the change from a Republican-controlled Congress to a Democratic-controlled Congress will have on tax policy for business?

Responses	Total	%	Percentage of total respondents
Significant impact	89	68.46%	
Insignificant impact	41	31.54%	
(Did not answer)	0	0%	
Total Responses	130		20% 40% 60% 80% 100%

- The first 100 hours in the House and the initial legislation that's come up in the Senate has shown there are distinct differences in tax priorities between Democrats and Republicans.
- Of those respondents who believe the change in Congressional control will have a significant impact on tax policy for business, 83 percent think that impact will be unfavorable to domestic business and 90 percent think it will be unfavorable to international business.
 - 79 percent think the change of Congressional control will have a significant impact on their particular business.
- Only 55 percent of respondents in the manufacturing industry think the change in Congressional control will have a significant impact on tax policy compared to 68 percent of all respondents. 70 percent of oil & gas and 78 percent of financial services respondents agree.
 - Restaurant & retail industry respondents were more divided, 55 percent choosing "significant impact" and 45 percent choosing "insignificant impact."

2. What tax impact do you believe the change of control in Congress will have on your particular business?

Responses	Total	%	Percentage of total respondents				
Significant impact	73	56.15%					
Insignificant impact	57	43.85%					
(Did not answer)	0	0%					
Total Responses	130		20%	40%	60%	80%	100%

- Although respondents think there will be significant tax policy changes due to reprioritization, they believe the changes will affect particular industries more than others.
- Manufacturers are the least concerned about the effect of the change in Congressional control on their business (42 percent) while oil & gas (80 percent) and financial services (79 percent) respondents are more worried than respondents as a whole (56 percent).
- While respondents do not seem to be concerned about broad-based tax reform, they are worried that Congress will enact proposals targeted at specific industries.

3. Do you believe the impact of any change in tax policy will be favorable or unfavorable to:

		Favorable	Unfavorable	Did not answer	Total
(a)	Domestic Business	[26] 20.00%	[102] 78.46%	2	130
(b)	International Business	[14] 10.77%	[109] 83.85%	7	130

- Legislation introduced and considered at the beginning of the 110th Congress contains a variety of revenue raising provisions that target both domestic and international business operations.








4. Which of the following business tax revenue sources do you believe will be among the leading sources tapped by Congress to pay for alternative minimum tax relief for individuals? (Please pick 2)

Responses	Total	%	Percentage of total respondents
Elimination or reduction of LIFO inventory benefits	33	25.38%	
Reduction in the domestic manufacturing deduction under section 199	48	36.92%	
Increase in taxation of international operations (e.g., reduction in foreign tax credits, end deferral, or transfer pricing changes)	80	61.54%	
Reduction of interest, rent, or royalty deductions	14	10.77%	
Codification of the economic substance doctrine	85	65.38%	
Other (please specify)	11	8.46%	
(Did not answer)	1	0.77%	
Total Responses	272		20% 40% 60% 80% 100%

Multiple answers per participant possible. Percentages added may exceed 100 since a participant may select more than one answer for this question.









- Overall, respondents think Congress will look to codify the economic substance doctrine (65 percent) or increase taxation of international operations (62 percent) as principal revenue raisers.
- Oil & gas industry respondents express concern that Congress will tap the domestic manufacturing deduction under section 199 (90 percent), taxation of international operations (50 percent) and LIFO inventory benefits (40 percent) as principal revenue drivers.
 - Recent proposals to reduce LIFO and the 199 benefits have been focused on the oil and gas industries.

5. Which of the following potential tax revenue sources do you believe would have the most unfavorable impact on your business? (Please pick one)

Responses	Total	%	Percentage of total respondents
Elimination or reduction of LIFO inventory benefits	15	11.54%	
Reduction in the domestic manufacturing deduction under section 199	27	20.77%	
Increase in taxation of international operations (e.g., reduction in foreign tax credits, end deferral, or transfer pricing changes)	36	27.69%	
Reduction of interest, rent, or royalty deductions	26	20.00%	
Codification of the economic substance doctrine	12	9.23%	
Other (please specify)	9	6.92%	
(Did not answer)	5	3.85%	
Total Responses	130		20% 40% 60% 80% 100%




- While respondents believe Congress is most likely to look at codification of the economic substance doctrine and an increase in taxation of international operations as revenue raisers, they are more divided in what tax revenue sources would have the greatest effect on their businesses.
 - Of the 65 percent of respondents who think Congress will look towards codification of the economic substance doctrine for additional tax revenue, only nine percent say it would have the most unfavorable impact on their business.
 - Of the 62 percent of respondents who think Congress is likely to increase taxation of international operations, only 33 percent identified it as the potential revenue source which would have the most unfavorable impact on their business.
 - Some of the legislative proposals are quite broad and businesses may not yet fully understand the scope of what day-to-day transactions they will impact.

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

		Yes	No	Did not answer	Total
(a)	International business operations	[112] 86.15% 	[14] 10.77% 	4	130
(b)	Financial instruments and transactions	[100] 76.92% 	[22] 16.92% 	8	130
(c)	Joint ventures and partnerships	[82] 63.08% 	[40] 30.77% 	8	130
(d)	Executive compensation, including stock options	[120] 92.31% 	[8] 6.15% 	2	130




- Given the mainstream media attention in post-Enron executive compensation scandals, businesses are on high alert that Congress is actively concerned with these issues.
- 100 percent of retail & restaurant respondents believe Congress will push the IRS to look at international business operations.
- While 100 percent of the oil & gas respondents think executive compensation is a top Congressional target, only half (50 percent) think there will be additional scrutiny of joint ventures and financial instruments.

7. Does your business plan to lobby any tax issues in the coming two years in light of the change in Congressional control?

Responses	Total	%	Percentage of total respondents
Yes	60	46.15%	
No	24	18.46%	
Unsure	46	35.38%	
(Did not answer)	0	0%	
Total Responses	130		20% 40% 60% 80% 100%

- 81 percent of respondents are planning to or thinking about lobbying tax issues in light of the change in Congressional control.
 - Since many businesses rely on their trade associations and/or the largest companies within their sectors to do their lobbying, that may account for the large number of undecided responses
- 91 percent of retail & restaurant respondents and 80 percent of oil & gas respondents are planning to or thinking about lobbying tax issues in light of the change in Congressional control.
 - Recent statements by key legislators have indicated a possible focus on certain industries in the coming year, including oil & gas.

8. In light of the change in Congressional control, does your business plan to alter its tax strategy to address potential modifications to tax policy?

Responses	Total	%	Percentage of total respondents
Yes	33	25.38%	
No	60	46.15%	
Unsure	37	28.46%	
(Did not answer)	0	0%	
Total Responses	130		20% 40% 60% 80% 100%

- 50 percent of all oil & gas respondents plan to alter their business tax strategy to address potential modifications to tax policy. Only 18 percent of retail & restaurant respondents are currently planning proactive changes.

9. In what industry is your business?

Responses	Total	%	Percentage of total respondents
Agriculture or Food	1	0.77%	
Construction	2	1.54%	
Financial Services (including financial institution/banking, healthcare, and insurance)	28	21.54%	
Information Technology/Software Provider	7	2.31%	
Manufacturing (including automotive, chemical, and defense and other heavy industry)	36	27.69%	
Restaurant and Retail	11	8.46%	
Oil and Gas	10	7.69%	
Other (please specify)	35	26.93%	
(Did not answer)	0	0%	
Total Responses	130	0%	20% 40% 60% 80% 100%

10. Which of the following best describes you?

Responses	Total	%	Percentage of total respondents
CEO, CFO, COO, President	3	2.31%	
VP, Director, or Manager of Tax	102	78.46%	
Government Affairs Professional	5	3.85%	
In-House Counsel	12	9.23%	
Other (please specify)	8	6.15%	
(Did not answer)	0	0%	
Total Responses	130		20% 40% 60% 80% 100%

- Respondents overwhelmingly serve in capacities that require them to closely monitor tax policy changes.

Methodology

In January of 2007, Miller & Chevalier distributed a survey via e-mail to 1,973 leading tax and finance executives, including Vice Presidents, Managers, and Directors of Tax at Fortune 100 companies and U.S.-based multinationals. The survey was completed by 130 respondents, representing a 7.93 percent response rate.

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.