

TAX POLICY FORECAST SURVEY

MARCH 2014

MILLER & CHEVALIER CHARTERED
THE NATIONAL FOREIGN TRADE COUNCIL

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Executive Summary:

Divided Government, Disconnect with Business Preventing Meaningful Change



Those are just some of the top tax concerns highlighted by respondents to the Miller & Chevalier/ National Foreign Trade Council (NFTC) 2014 Tax Policy Forecast Survey.

In light of pending changes in tax-writing committee leadership, the pending Congressional mid-term elections and competing legislative priorities — not to mention inherent differences of opinion regarding threshold issues such as revenue impact — tax reform has been pushed far down, if not off, the agenda for 2014.

Make no mistake: The U.S. business community overwhelmingly supports fundamental tax reform. The tax code, which includes a significant number of temporary measures, is increasingly complex for taxpayers to comply with and the Internal Revenue Service (IRS) to administer. The U.S. statutory tax rate and international tax system weigh on businesses struggling to remain competitive globally and deter foreign-based businesses looking at the U.S. as a potential investment location. Nevertheless, respondents believe that tax reform is virtually impossible given the current political landscape.

As businesses look at the political landscape and determine that tax reform is unlikely to move forward this year, they are pivoting to focus on short-term objectives like the tax extenders package while waiting for change in the political terrain that would allow tax reform to receive serious consideration.

Headline Findings

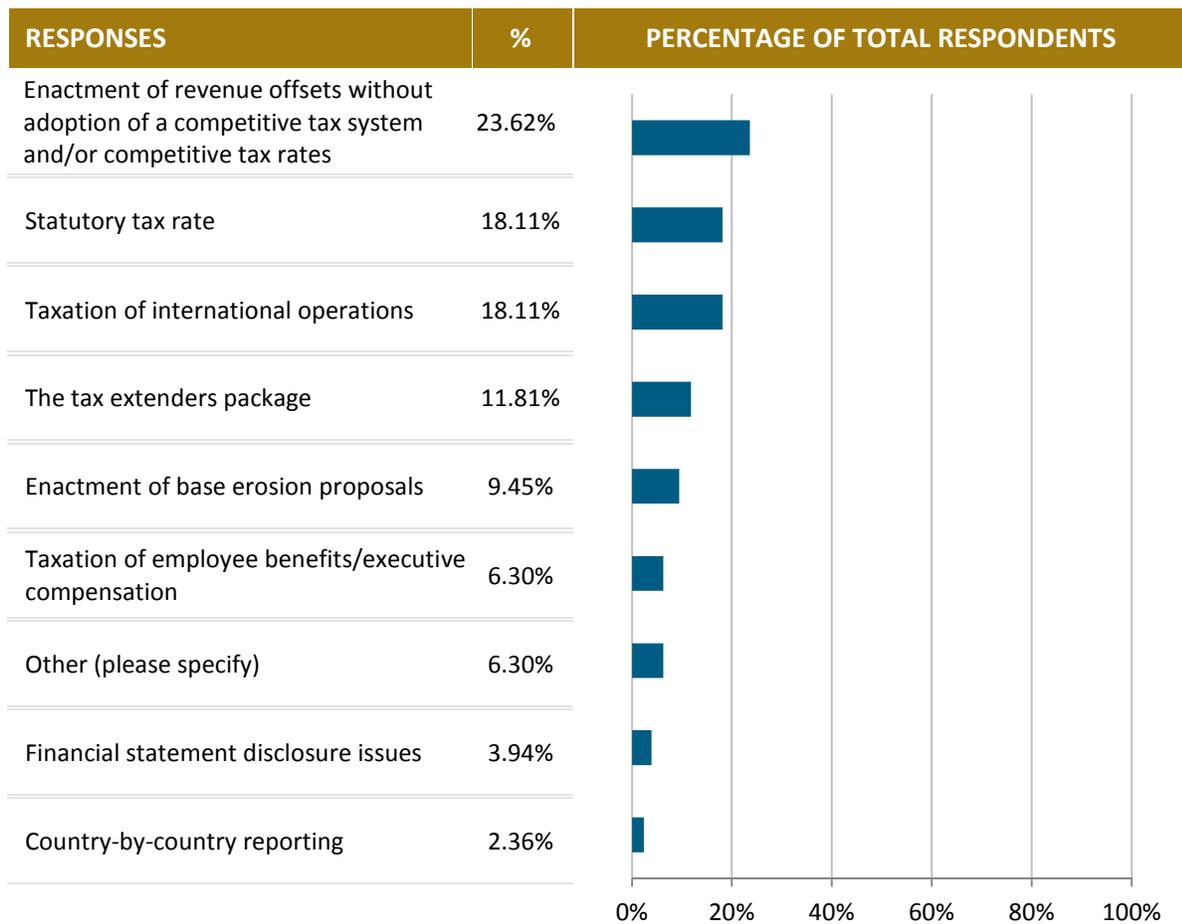
- U.S. businesses are uneasy about global competitiveness. Topping the list of tax concerns respondents would like the government to address are the enactment of revenue offsets absent a competitive tax system or competitive tax rates (24 percent), the statutory tax rate (18 percent) and taxation of international operations (18 percent).
 - Respondents say changing the worldwide tax system (32 percent) and reducing the statutory tax rate (35 percent) could be game changers in the global marketplace.
- Divisions in Congress coupled with the Administration's weak support are preventing tax reform. Obama Administration priorities (40 percent) and the split in Congressional control (30 percent) were cited by respondents as the factors that will have the most negative impact on reform in 2014.
- Respondents believe House Committee on Ways and Means Chairman Dave Camp is the most influential tax policymaker, followed by President Barack Obama, Senate Majority Leader Harry Reid and new Senate Finance Committee Chairman Ron Wyden. Chairman Camp's release of the Tax Reform Act of 2014 after the survey date only solidifies his role as the top tax policymaker.
- More than three-quarters of respondents believe that split party control of the House and Senate will result in little or no tax legislation this year.
- Not even one respondent predicted tax reform will be enacted in 2014.

2014 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 2014. The following charts represent the collective input of respondents. The survey methodology can be found at the end of this report.

Business Priorities

Q1. What is your top business tax concern in 2014?



Market Perspective

It is no surprise that when we asked what tax legislation respondents thought would be enacted this year, not one respondent told us they expected fundamental reform of the tax code. And yet some respondents told us, in the very next question, that their biggest concern was the complexity of the system — a problem that could only be solved through fundamental tax reform.

Among that latter group: **Anthony Rackley**, Vice President of Tax at The Williams Companies, which focuses on midstream and interstate transportation of natural gas. We called Rackley after the survey to ask what worries him about the current system.

“My view is that when you add up the government and taxpayer costs, we probably spend more per dollar collected to administer the tax system than any other nation in the world,” he says. “It’s horribly inefficient and a drain on the economy.”

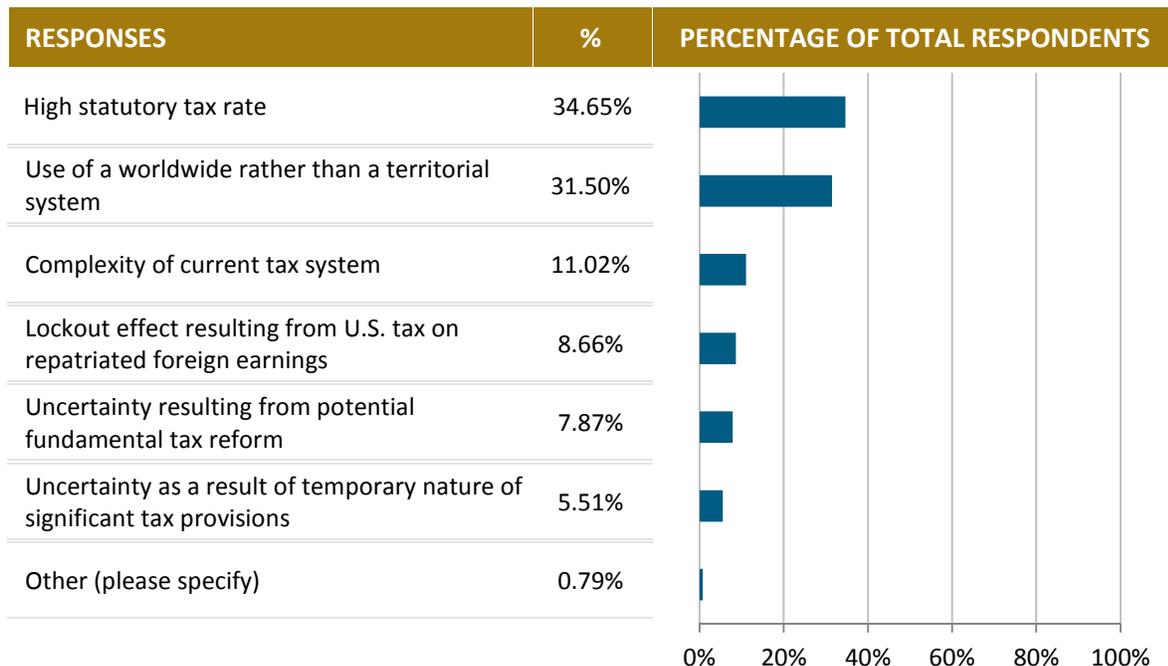
Nevertheless, there’s little hope that systemic change is on the way — too many opposing interests, too

many political realities. And, as Rackley points out, somebody would get the short end of the stick. “I think considerable progress was made last year in terms of the underlying work that will go into final law. And I think that planning will continue in 2014 but we won’t see any kind of legislation that’s material. Real change is a major ordeal because there will always be winners and losers,” he says.

Further, overhauling the U.S. tax code, which touches virtually every form of economic activity, could itself pose a systemic risk. “It would be disruptive at a minimum,” Rackley says. “To keep it from being catastrophically disruptive would be the goal.

“I would like for us to realize that we’re part of the rest of the world and as a country we’re not dominating as much as we did three or four decades ago. We need to be competitive, and that includes a competitive corporate rate and a competitive international structure.”

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?



- The 2014 concerns tend to mirror those standouts flagged by respondents in 2013: the U.S. statutory tax rate and taxation of international operations. Respondents believe both have a significant impact on the global competitiveness of U.S. businesses.

Market Perspective

Given the constant drumbeat of news on partisan gridlock in Washington, it's not surprising that so many tax executives point to divided government as the biggest obstacle to tax reform.

But our survey also points to a clear divide among the tax executives themselves. When we asked them to pick the most significant tax-reform issue, we got an even split between the two most popular answers: a high statutory rate and replacing the current international tax system with a territorial regime.

Nearly 70 percent of our respondents picked one of those two answers. **Brian Bieron**, the Washington, DC-based Director of Global Public Policy at eBay Inc., was not among them. Instead, Bieron gave us a write-in response, citing "lack of agreement among the business community on overall goals" as the biggest impediment to reform.

When we asked Bieron to elaborate, he told us he sees two opposing camps: companies who do business primarily in the U.S., for whom the corporate tax rate is the most pressing issue, and companies

who do much or most of their business outside the U.S., who mainly want a new system for taxing their overseas earnings.

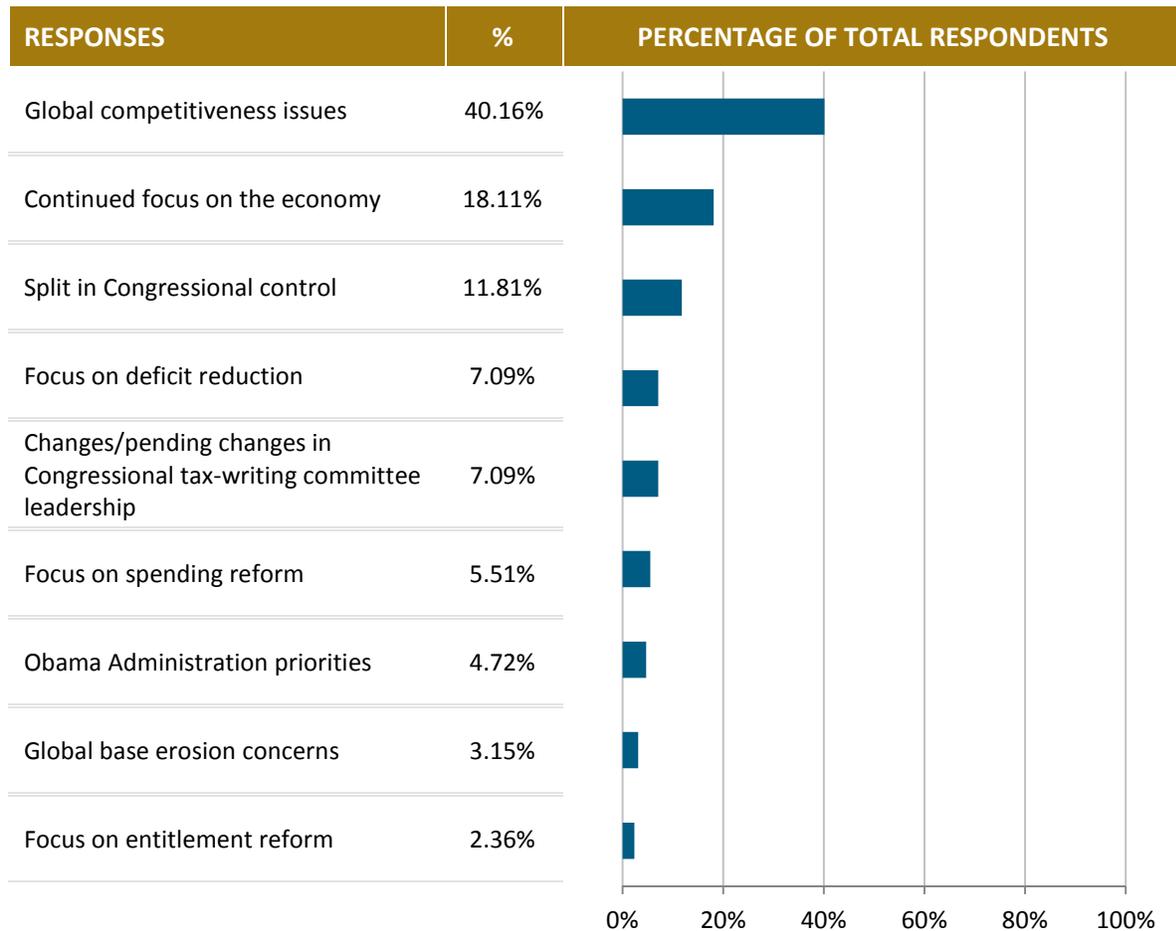
Among that latter group you'll find big technology companies who maintain much of their operations, facilities and employees on domestic soil but have customers, and taxable earnings, coming from all over the world. Bieron's employer, eBay Inc., is one of those.

"You literally have these companies succeeding in markets around the world and that makes the home business stronger, able to employ new people — it's seriously an all-good-news story," he says. "The idea that there would be new taxation of those earnings runs directly contrary to the idea of the businesses becoming more competitive globally."

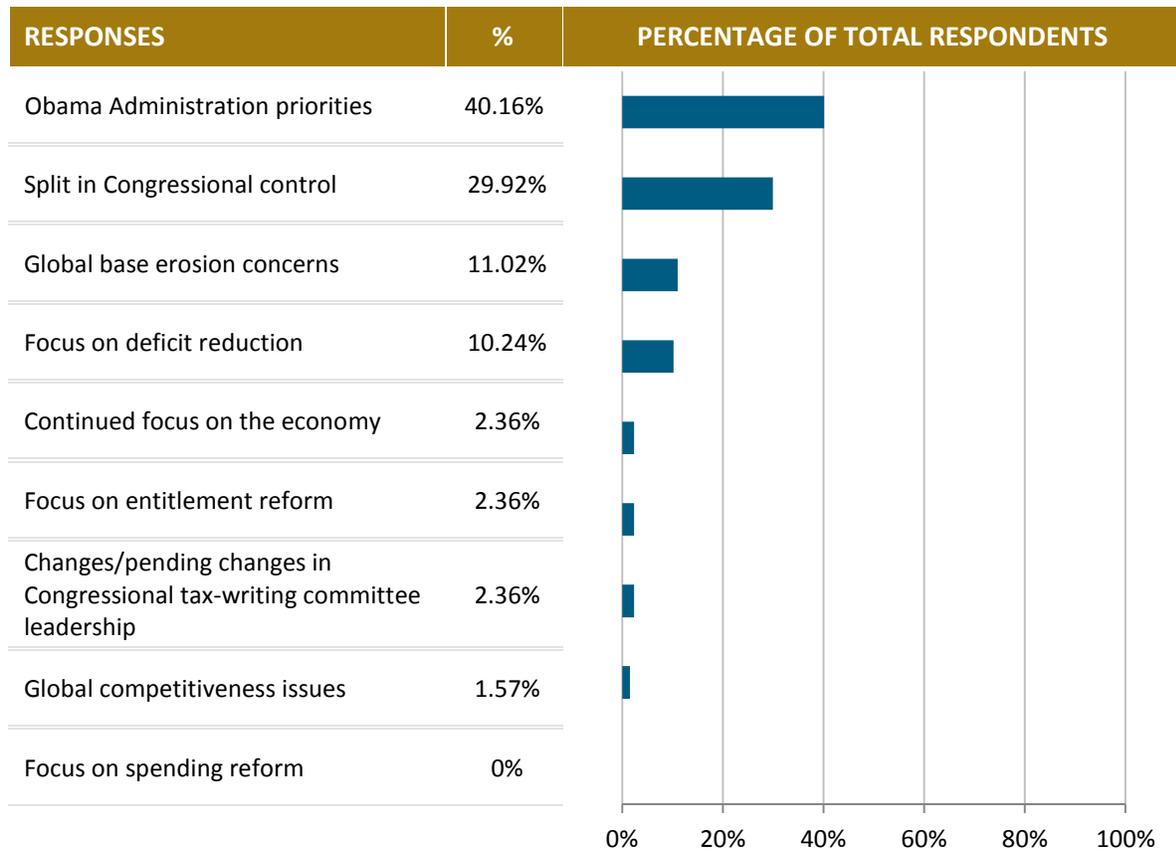
So what does the business community agree on? Lower taxes all around. As Bieron puts it, "If there's more revenue available to promote growth, everybody can be happy."

Tax Policy Drivers

Q3. What single factor will have the most significant positive impact on tax policy in 2014?



Q4. What single factor will have the most significant negative impact on tax policy in 2014?



- The top two positive responses from the 2013 survey traded places this year, but global competitiveness and the economy remain the top concerns of U.S. business executives.
 - Last year, 34 percent of respondents cited a need for continued focus on the economy. That number may have dropped to 18 percent in 2014 due in large part to the improving U.S. economy.
- Global competitiveness, which according to respondents has the most potential to drive tax policy in 2014, has climbed fast in the rankings over the past few years, moving from 2 percent in 2012 to 25 percent in 2013.
 - These responses point to an opportunity for the Administration and tax reform: If President Obama were to recognize that tax reform is necessary to prevent U.S. businesses from falling behind on the international stage, his Administration's prioritization of tax reform would dramatically increase the odds for enactment.
- In terms of negative drivers, Obama Administration priorities and the divided Congress took the top two spots for the second year in a row.
 - History shows that for tax reform to advance, it must be a White House priority (e.g., President Ronald Reagan's pursuit and enactment of the Tax Reform Act of 1986). Asked before the President listed his priorities in the 2014 State of the Union address, 40 percent of respondents said that President Obama would have the most negative impact on tax policy. His State of the Union address and his Fiscal Year 2015 budget proposal seem to confirm that respondents are correct about his priorities.

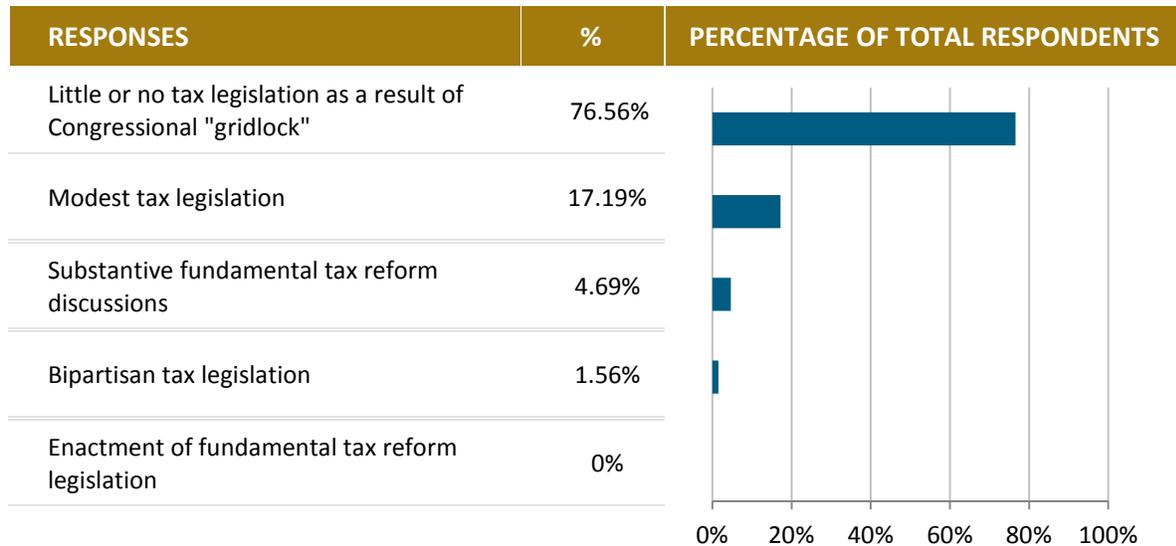
**Q5. Which individuals will have the most significant impact on tax policy in 2014?
(Rank top three with number one being most influential)**

RESPONSES	RANK 1	RANK 2	RANK 3	WEIGHTED RANK (SCORE)
Representative Dave Camp	37	17	15	1 (160)
President Barack Obama	33	13	33	2 (158)
Senator Harry Reid	11	27	15	3 (102)
Representative John Boehner	13	10	18	4 (77)
Senator Ron Wyden	7	19	10	5 (69)
Representative Paul Ryan	11	10	13	6 (66)
Senator Max Baucus	6	12	5	7 (47)
Treasury Secretary Jack Lew	2	4	7	8 (21)
Senator Mitch McConnell	3	3	5	9 (20)
Senator Patty Murray	1	5	4	10 (17)
Senator Orrin Hatch	2	4	1	11 (15)
Representative Sander Levin	1	1	0	12 (5)
Representative Nancy Pelosi	0	1	1	13 (3)
Assistant Treasury Secretary (Tax Policy) Mark Mazur	0	1	0	14 (2)
Total Responses				127

- Likely stemming from his lack of prioritization of tax issues, President Obama slipped from first place, which he held last year. House Ways and Means Committee Chairman Camp is now viewed as the most influential individual on tax policy.
 - Chairman Camp has been very active with regard to tax reform, including the recent release of the Tax Reform Act of 2014, after the survey concluded. Due to term limits, 2014 is likely his last year as Chairman of the Committee. Nonetheless, it is expected that he will continue to advance tax reform in his final year.
 - Senate Majority Leader Reid and House Speaker Boehner fall a bit further down the list reflecting the need for House and Senate leadership to demonstrate reform as a priority.
- In 2013, the most influential individuals named by respondents were President Obama, House Speaker Boehner, Chairman Camp, Senate Minority Leader McConnell and Senate Majority Leader Reid.

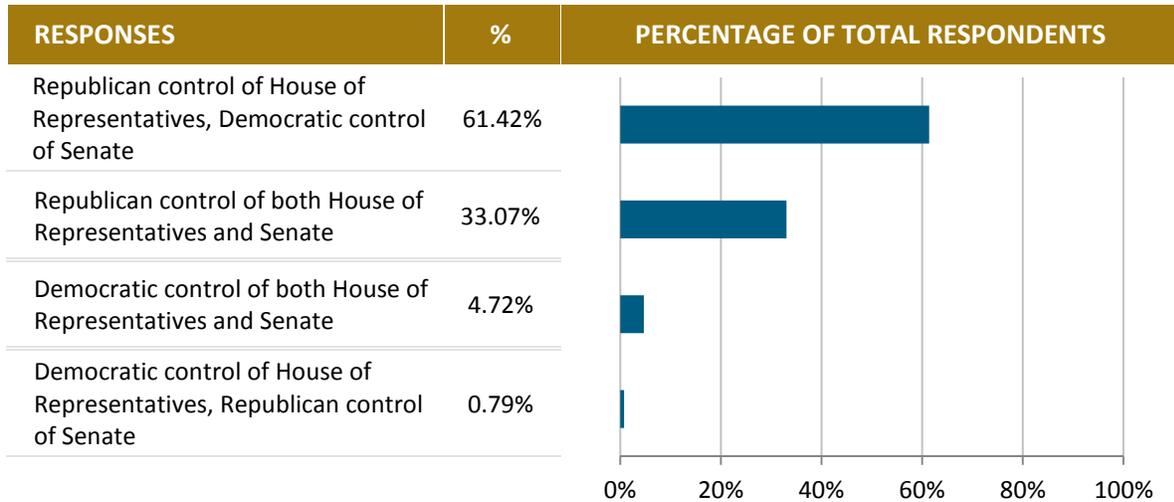
Politics at Play

Q6. The Democratic Party controls the Senate and the White House while the Republican Party controls the U.S. House of Representatives. What impact will divided government have in 2014?



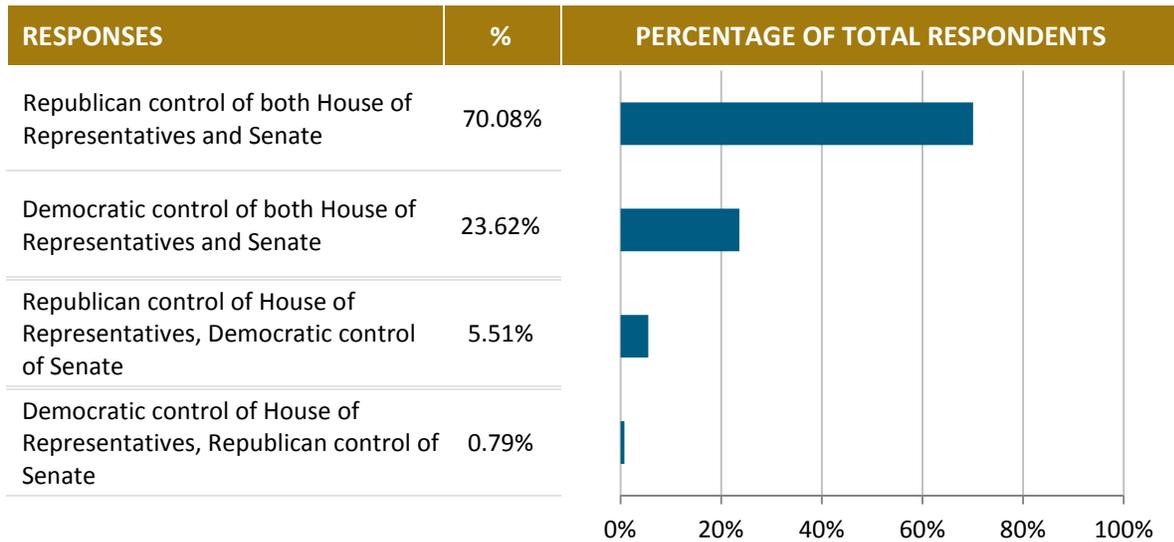
- While a majority of respondents in 2013 (53 percent) anticipated little or no progress on tax legislation as a result of gridlock in the divided Congress, the sentiment is significantly stronger this year, with more than three-quarters saying gridlock will stand in the way of tax legislation.

Q7. What do you believe will be the results of the 2014 mid-term Congressional elections?



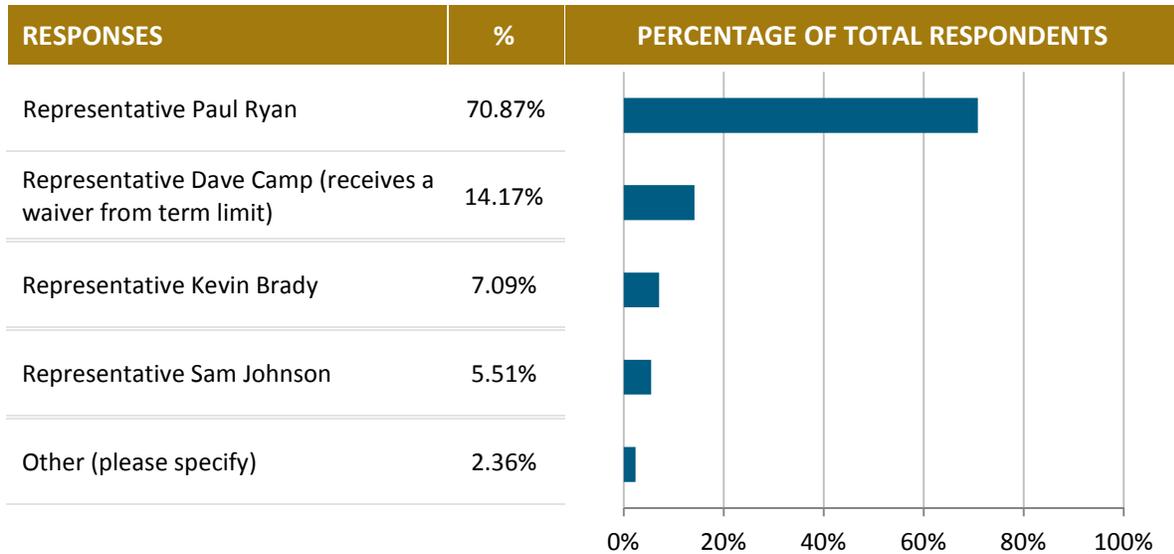
- All 435 House seats and 33 Senate seats (20 Democratic, 13 Republican) are up for election in 2014.
- Regardless of election results, changes are coming to the tax-writing committees. Senator Wyden has replaced Senator Baucus, who was confirmed as the U.S. Ambassador to China, as Chairman of the Senate Finance Committee, and Chairman Camp is term-limited. Further, several members of both tax-writing committees have announced plans to retire.

Q8. If tax reform is not enacted in 2014, which results of the 2014 mid-term Congressional elections will give tax reform the greatest likelihood of enactment in the 114th Congress (2015-2016)?



- Given the gridlock in Congress and partisan divisions in and among the White House, the Senate and the House, it is not surprising that most believe one-party control of both Congressional chambers could hasten enactment of tax reform. The view that Republican control further improves the odds for reform likely reflects the significant work of Chairman Camp to advance tax reform in recent years.

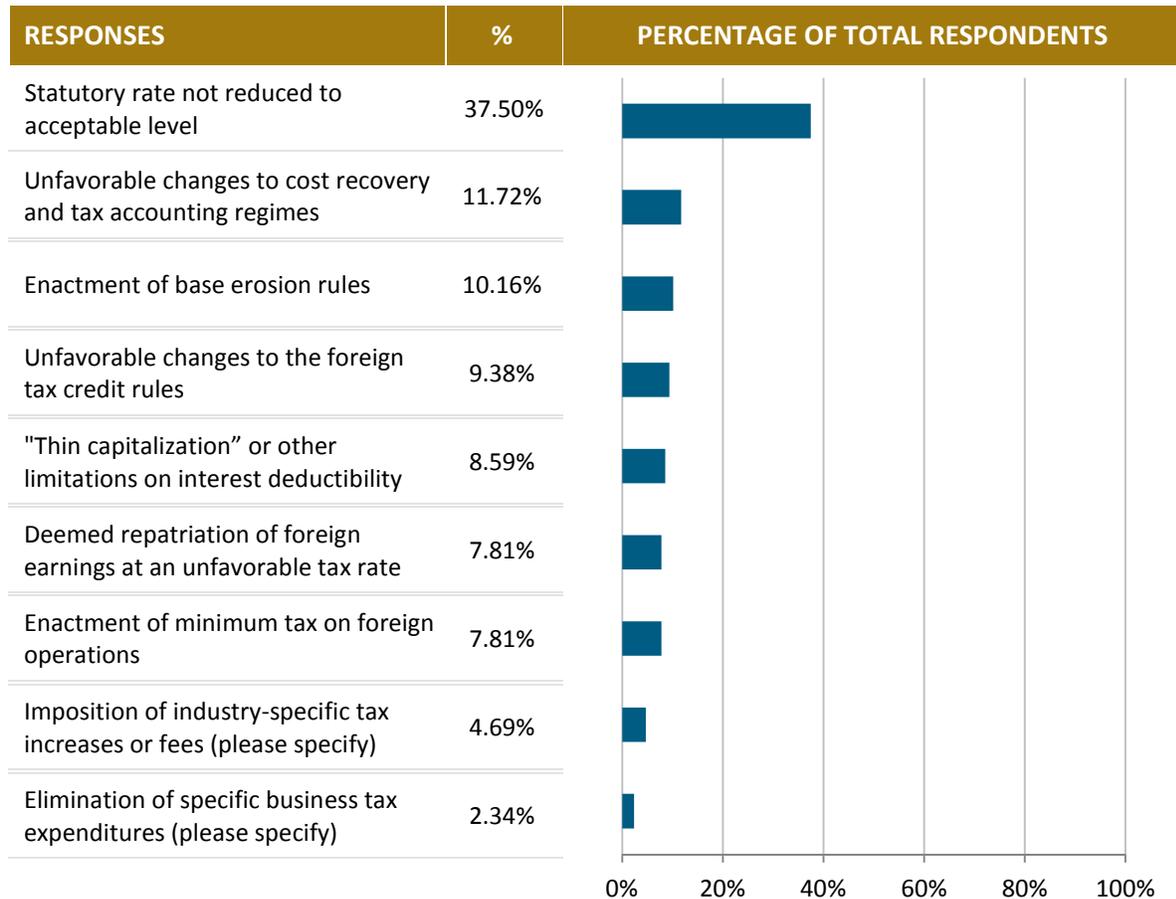
Q9. House Committee on Ways and Means Chairman Dave Camp is term-limited under House Republican Conference rules and must step down as Chairman at the end of 2014 unless he receives a waiver from those rules. Who do you believe will succeed him as Chairman (or Ranking Member) of the House Committee on Ways and Means?



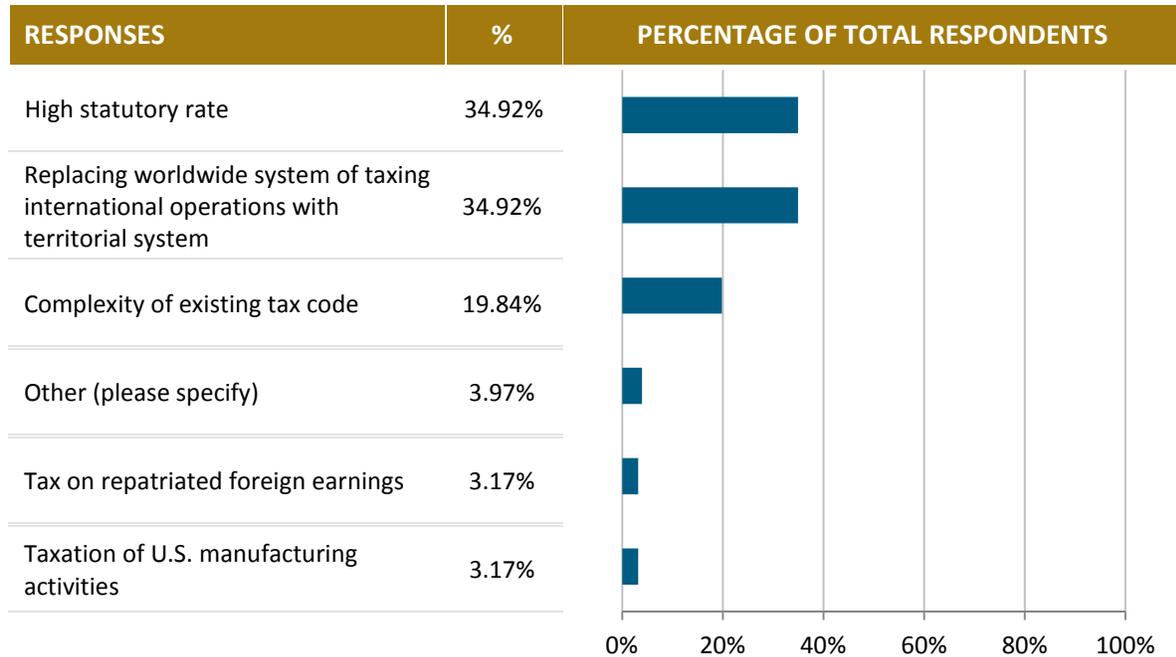
- Representative Ryan is viewed as most likely to be the 2015 Chairman (or Ranking Member) of the House Ways and Means Committee. If appointed to the Chairmanship, Representative Ryan would bring a wealth of experience to the role, having served as a senior member of the Committee on Ways and Means and also as the top Republican on the House Budget Committee, as Chairman and Ranking Member, over the past eight years. He also participated in the bipartisan National Commission on Fiscal Responsibility and Reform (the “Bowles-Simpson Commission”).

Tax Reform: How, What and When

Q10. What is your greatest concern with respect to tax reform?

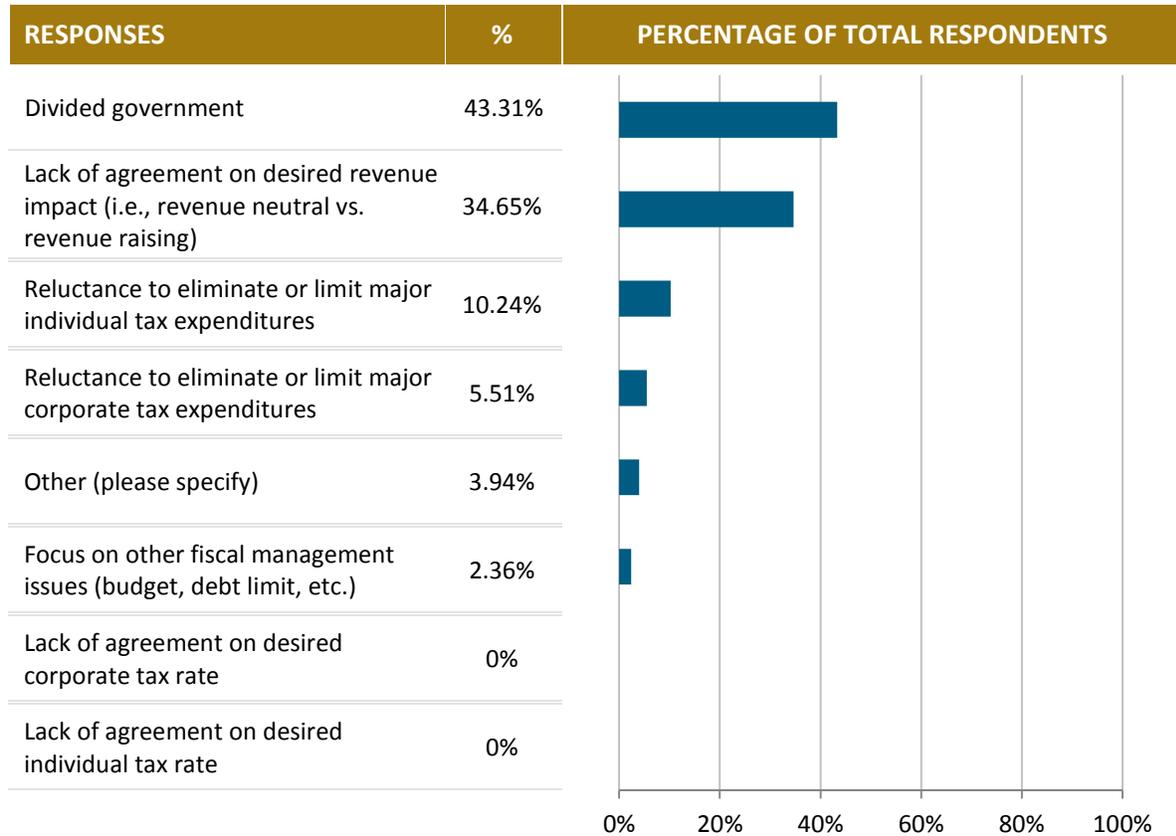


Q11. What is the most significant issue to address through tax reform?



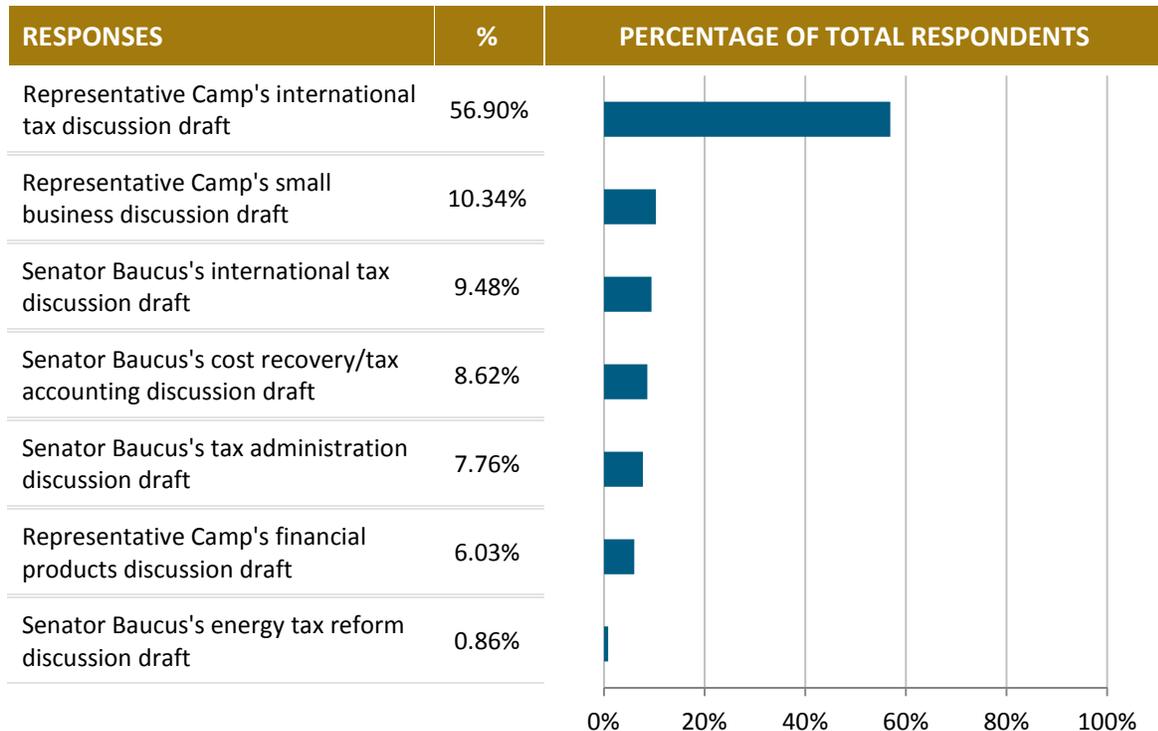
- Again, the statutory rate and international tax system are top-tier issues for respondents thinking about tax reform.
- Concerns with unfavorable changes to cost recovery and tax accounting regimes may be attributable to the recent release of former Chairman Baucus’s discussion draft on the topic.
- One respondent noted, *“I am concerned about tax changes that are not evenly impactful across different industries or hurt particular industries more than others that are viewed more favorably.”*

Q12. What do you believe is the greatest impediment to the enactment of tax reform?



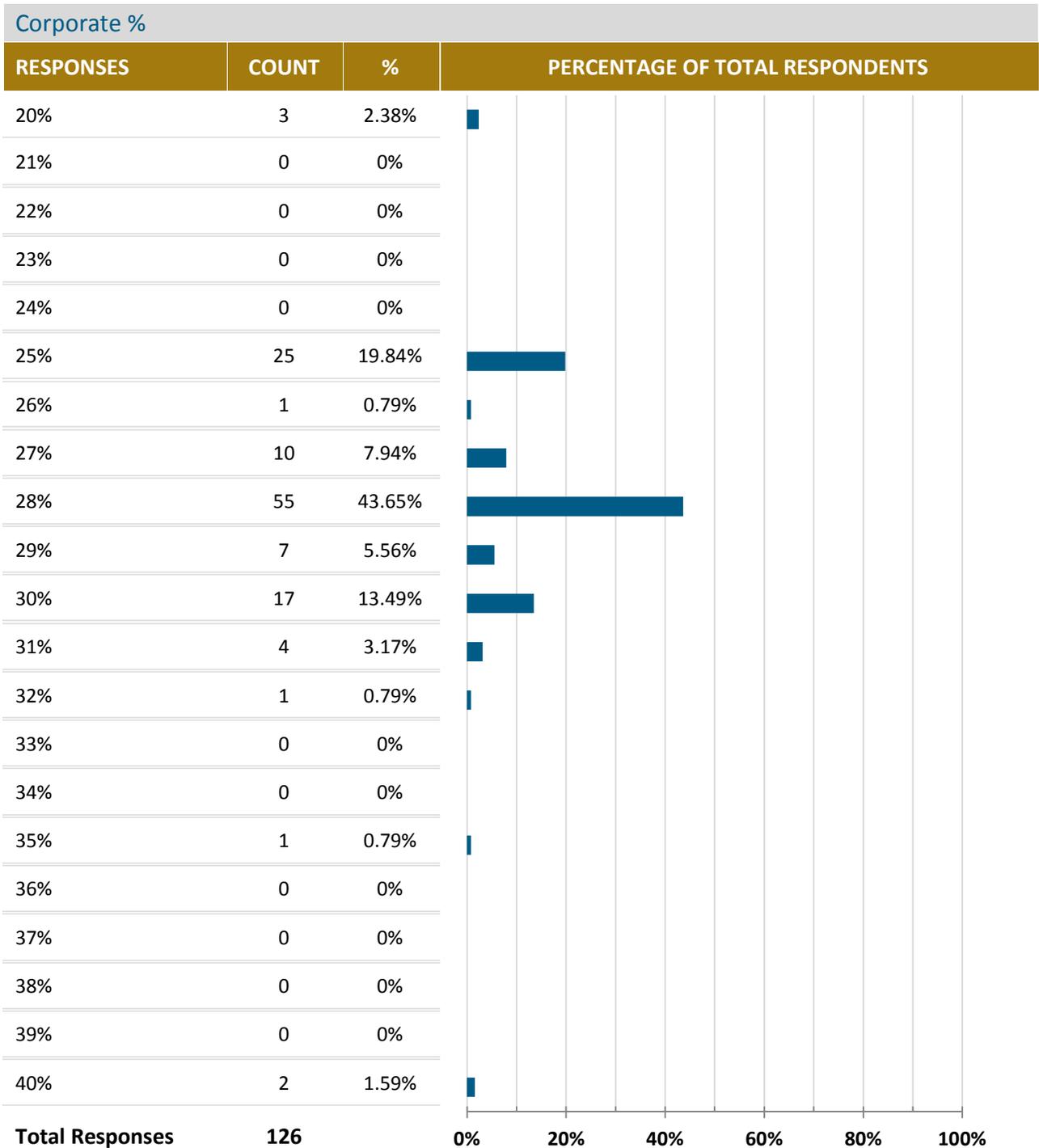
- In addition to the impact of divided government, respondents said that revenue impact is a major impediment to the enactment of tax reform. Republicans have endorsed revenue-neutral tax reform, while many Democrats and the Administration have identified tax reform as a potential revenue source for deficit reduction or new spending on infrastructure and other priorities. This fundamental philosophical difference must be resolved for tax reform to move forward.

Q13. The Chairmen of both the House Committee on Ways and Means and the Senate Finance Committee have released several “discussion drafts” addressing specific areas of tax reform. Which discussion draft do you believe has most significantly advanced the tax reform debate?

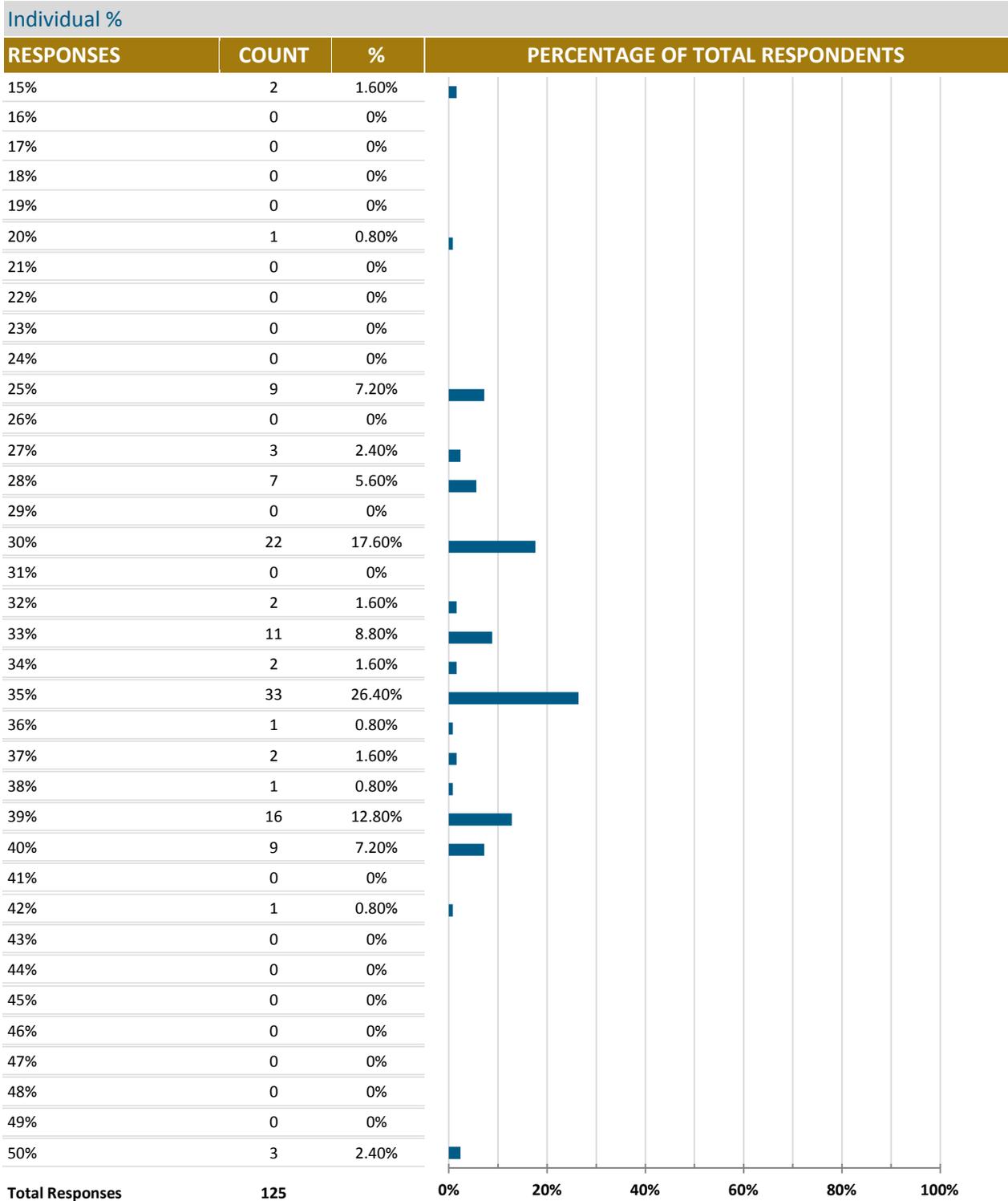


- Respondents had high praise for Chairman Camp’s international tax discussion draft, which is based on a 25 percent target tax rate and features comprehensive reform of the U.S. international tax system. By contrast, respondents were less impressed with former Chairman Baucus’s international tax discussion draft, which may reflect the fact that the draft lacks a target rate and would result in a net tax increase on international operations. It will be interesting to see Chairman Wyden’s approach to the discussion drafts released by his predecessor.
- Chairman Camp’s Tax Reform Act of 2014, released after the survey concluded, incorporates his prior discussion drafts as well as taxpayer comments with respect to these drafts.

Q14. If tax reform is enacted, what do you think the top corporate statutory tax rates will be?

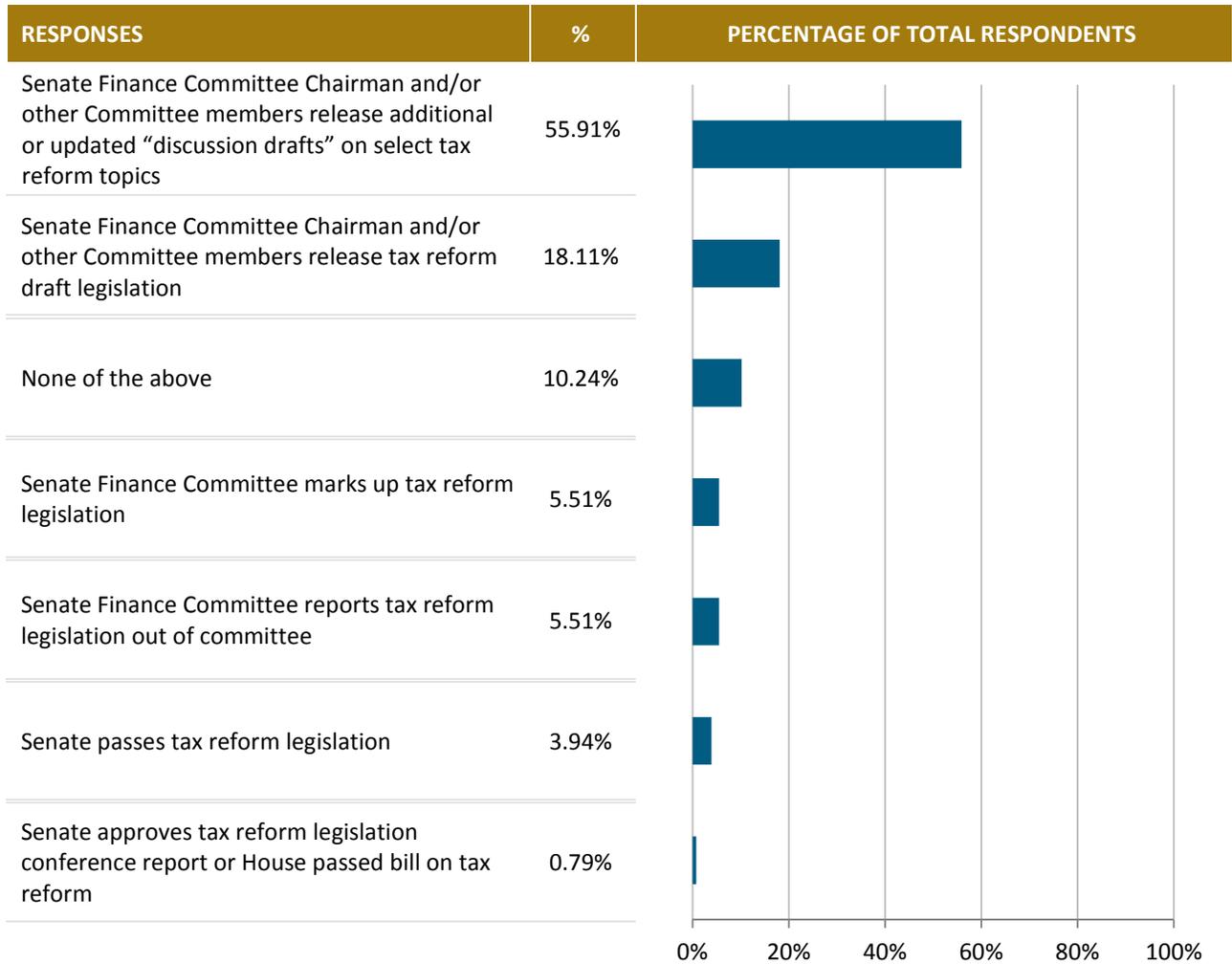


Q15. If tax reform is enacted, what do you think the top individual statutory tax rates will be?

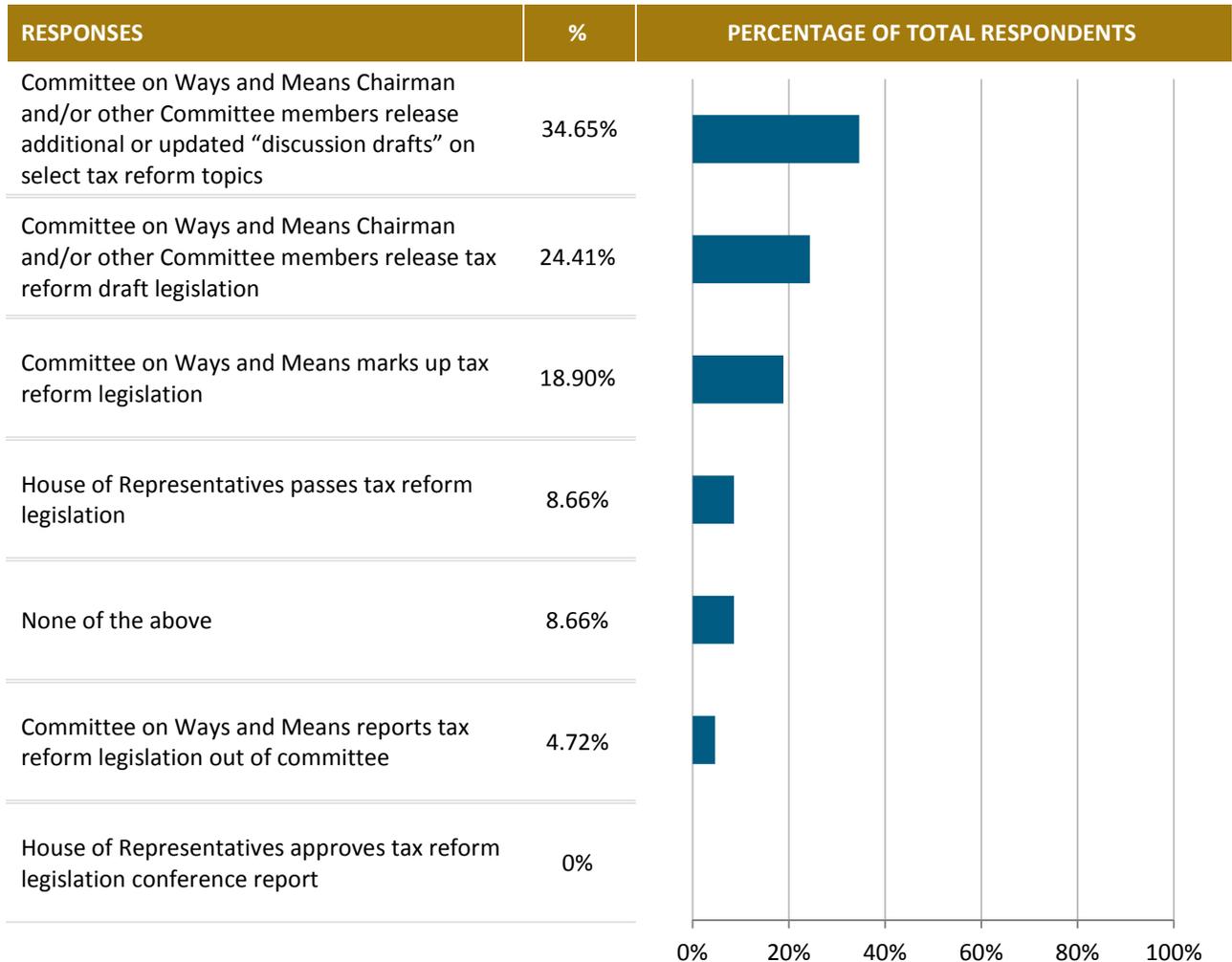


- Post-reform, respondents anticipate a top corporate statutory tax rate in the 25-30 percent range; the Administration has proposed 28 percent, while Chairman Camp has proposed 25 percent including a number of new international proposals.

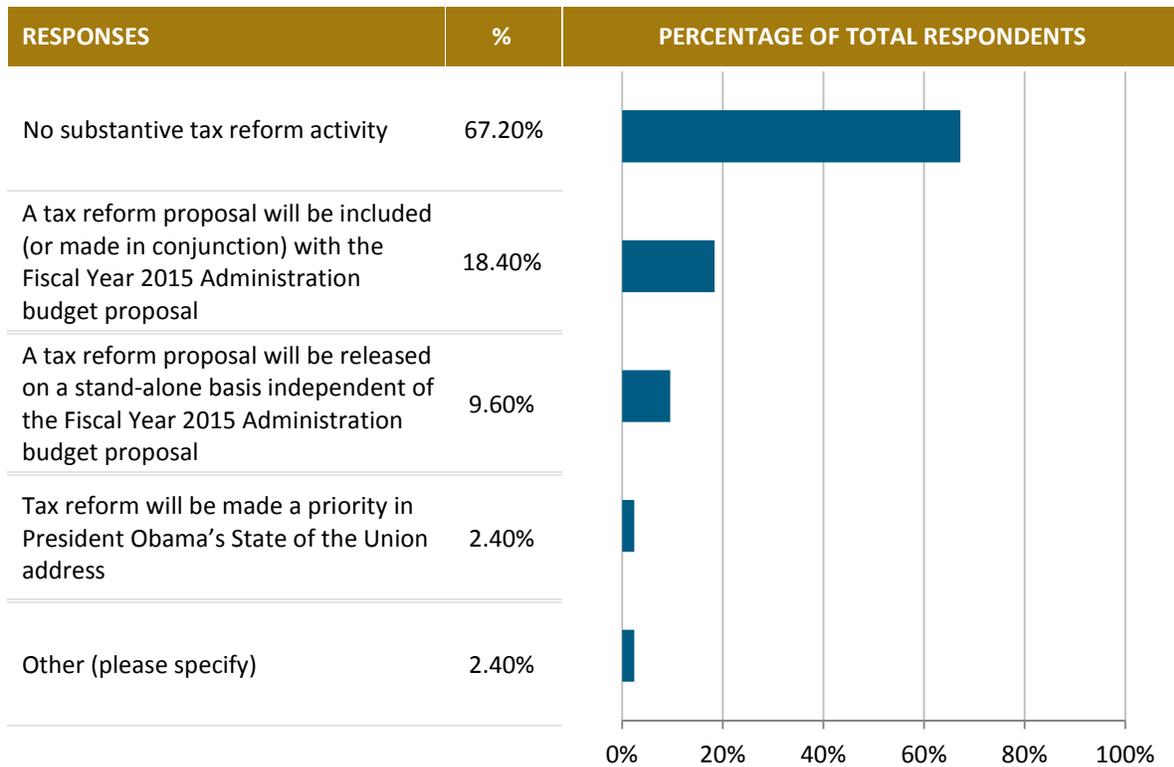
Q16. How far do you expect tax reform to advance in the Senate in 2014?



Q17. How far do you expect tax reform to advance in the House of Representatives in 2014?

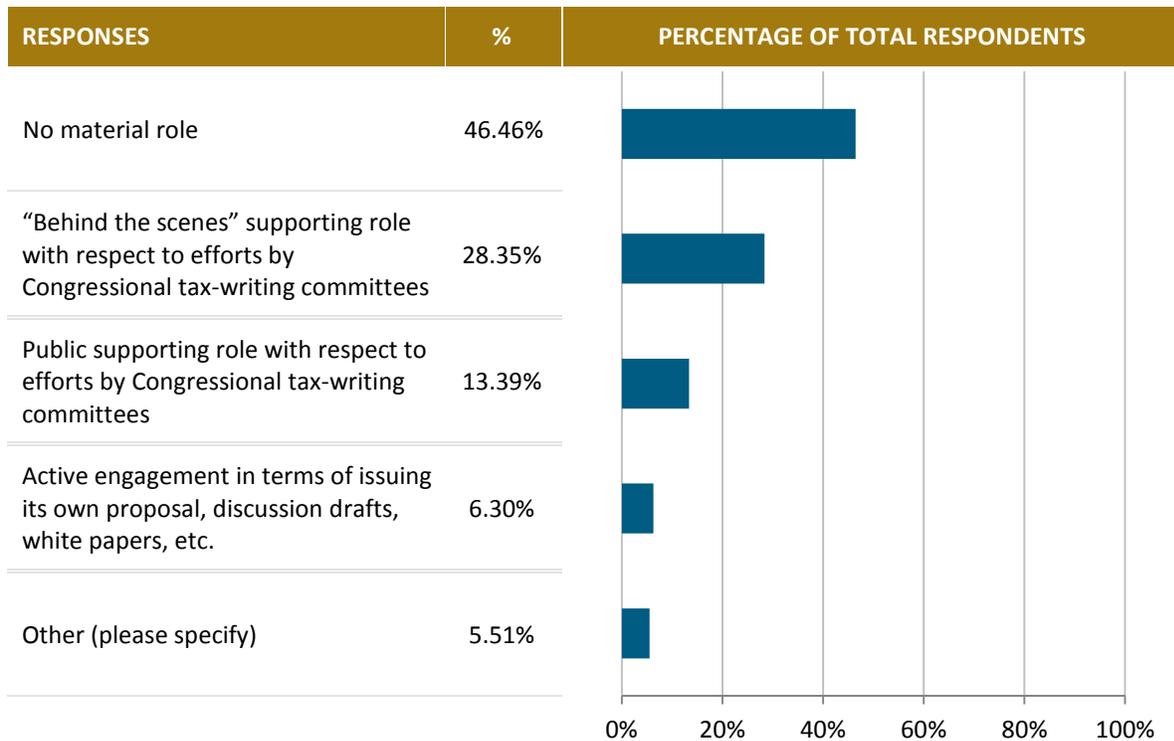


Q18. How far do you expect the Administration to advance tax reform in 2014?



- On tax policy, the President's FY 2015 budget reproposes virtually all of the line-item tax changes put forward in prior budgets and includes a few new items added for FY 2015.

Q19. What role do you think the Administration will have with respect to tax reform in 2014?

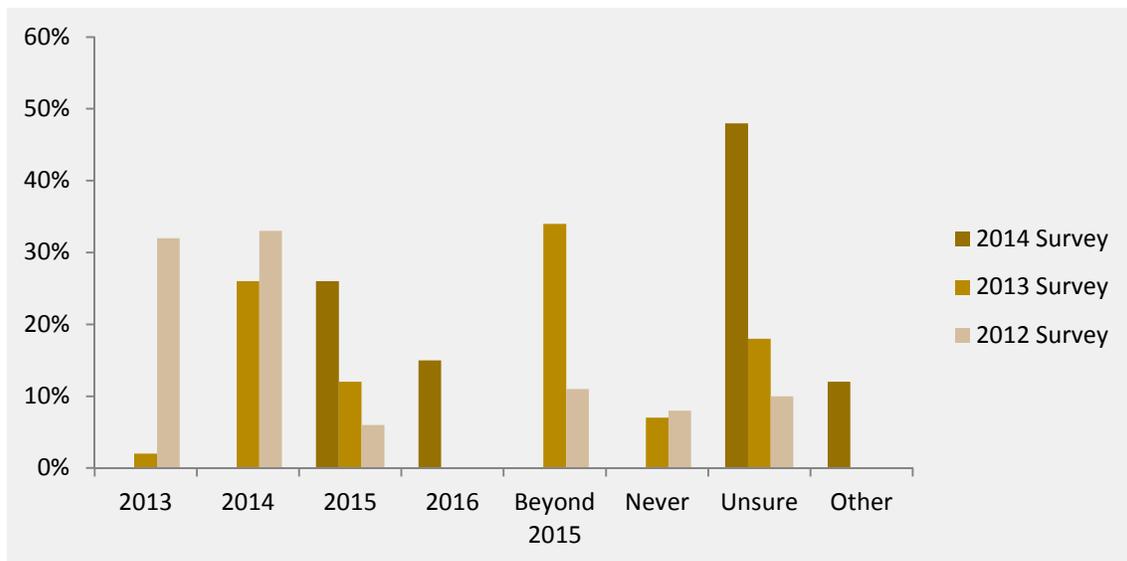
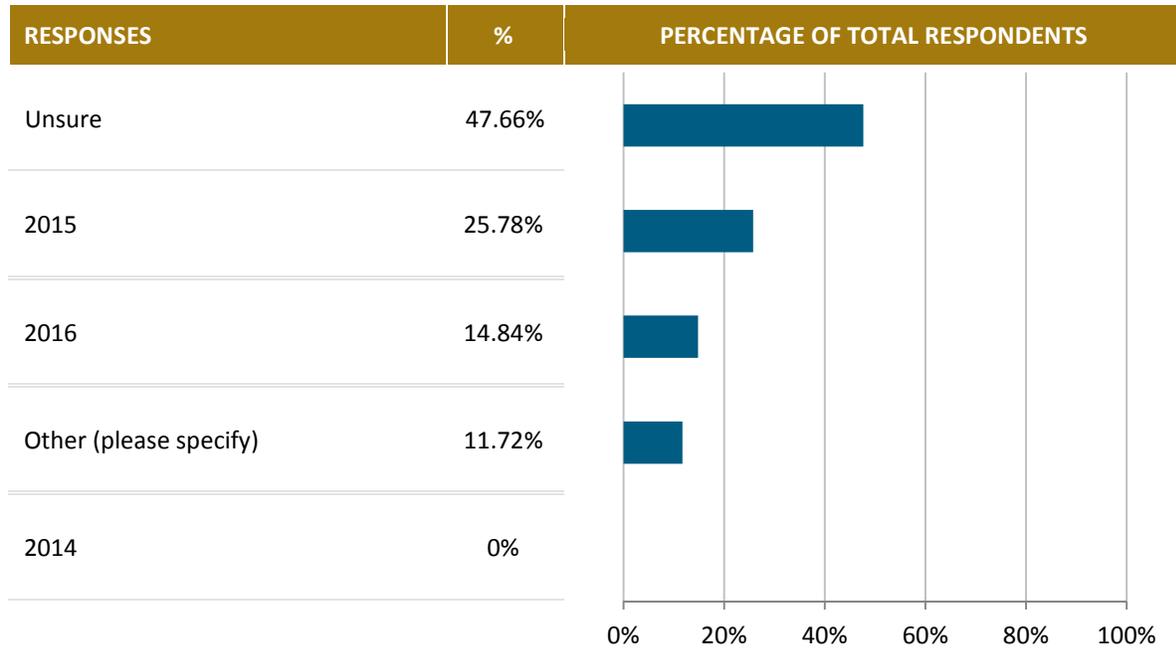


- Respondents expect the tax-writing committees to continue to pursue tax reform through the release of additional discussion drafts, such as Chairman Camp’s Tax Reform Act of 2014, which was released after the survey concluded. They are less certain about formal legislative progress (i.e., markups and votes), which is likely attributable to a number of factors including divided government, the pending mid-term Congressional elections and competing legislative priorities. Respondents have much lower expectations of the Administration substantially engaging in the tax reform debate.

Comments from respondents with respect to the Administration included:

- “They will undermine pro-business tax reform by pushing progressive proposals.”
- “At best, no material role. At worst, a divisive influence.”
- “The Administration will support the idea of reform but make sure no compromise can be reached. They have no interest in reform actually happening.”

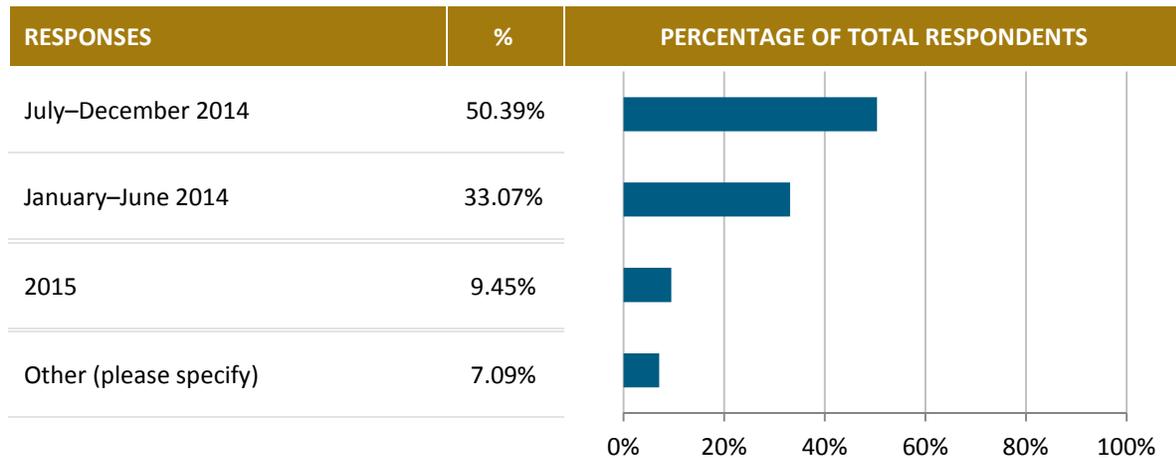
Q20. When do you believe tax reform will be enacted?



- While about one-third of 2012 and 2013 survey respondents identified 2014 as the year of tax reform, in the current survey not a single person believes change is on the table this year.

Extenders: Holding Firm While Reform Is on Hold

Q21. The tax extenders package expired on December 31, 2013. When do you think the extenders package will be extended?



- Numerous temporary tax provisions expired at the end of 2013, and a retroactive extension is a priority for the business community. Senate Finance Committee Chairman Wyden has indicated the tax extenders package is an early priority. It is unclear, however, whether the tax extenders package will advance in the House in the short term, as Chairman Camp has indicated in the past that his preference is extenders be considered as a part of tax reform rather than on a stand-alone basis.

Market Perspective

The Affordable Care Act (ACA) has forced every business in the health care industry to adapt and evolve as the new system is being implemented over time.

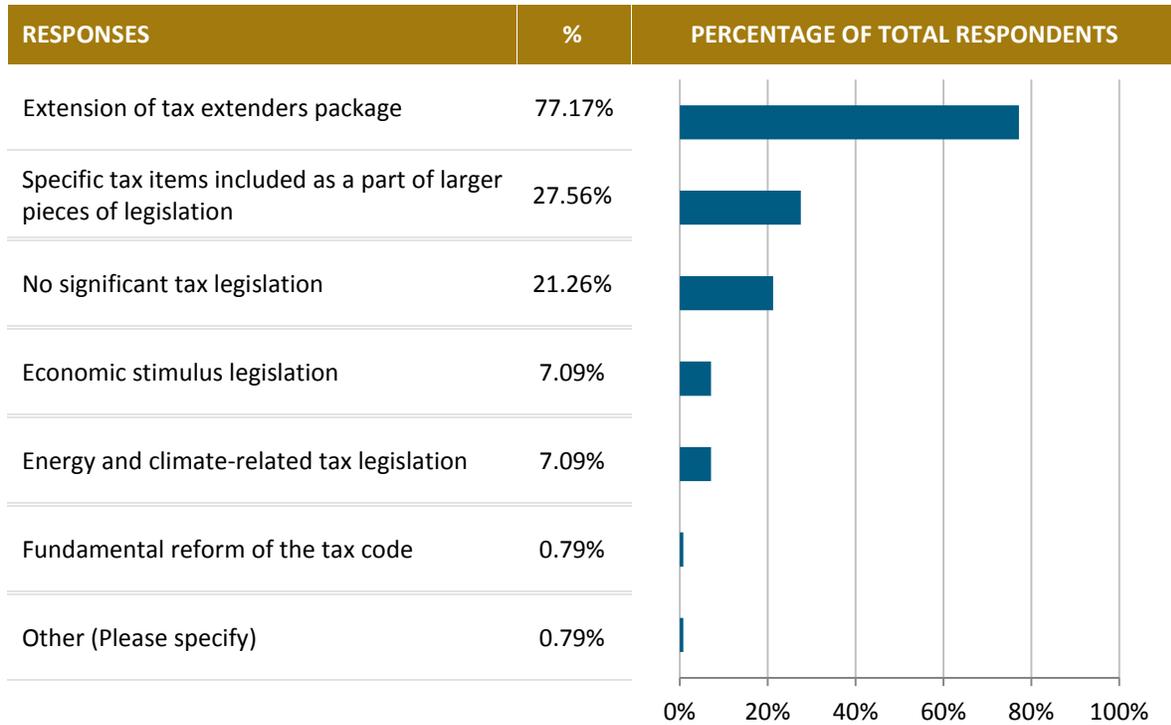
Still, the ACA isn't the only policy on the minds of health care tax executives. **Joseph McGowan**, Vice President of Tax at Hill-Rom, a leading worldwide manufacturer and provider of medical technologies and related services for the health care industry, is clearly concerned about how the new law's medical device excise tax will impact his firm's bottom line. But he tells us uncertainty regarding the status of existing tax provisions, as well as potential tax reform, are just as important to Hill-Rom's business planning.

The broadly popular Research and Development (R&D) credit has been extended multiple times in past years, but expired at the end of 2013, forcing McGowan to operate under the assumption that the tax benefit of

the incentive won't be in the mix. "The R&D credit is important for our effective tax rate. Even if I anticipate the credit will ultimately be extended, I can't factor in the benefit when it isn't in effect. And that uncertainty is an enormous challenge, far outweighing the burdensome corporate tax rate," he says.

As for the prospect of tax reform in 2014, McGowan is far from optimistic. In fact, he's skeptical that significant movement will happen before 2020. "We haven't seen any substantial tax changes since President Bush left office and I don't anticipate any under the current Administration. It's great that House and Senate leadership talk about making a commitment to reform," he says. "But because of all the opposing voices, fractured Congress and divisive priorities, I can't see a scenario that will allow for any tax reform in the foreseeable future."

Q22. What tax legislation do you expect to be enacted into law in 2014?
(Check all that apply)



- In 2013, 69 percent of respondents expected no significant tax legislation in the coming year. Optimism abounds for 2014 enactment of a tax extenders package, with 77 percent of respondents anticipating a package in 2014, up from 31 percent last year.

Methodology

In January 2014, 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.-based and foreign-based multinational corporations. Industries surveyed include manufacturing, oil and gas, insurance, utilities, financial institutions, automotive, health care, defense, hospitality and agriculture, among others.

The survey was completed by 129 respondents.

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

Our appreciation and gratitude to all those who contributed their views and shared their experiences.

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