

TTC/EY Business tax policy barometer

November 2022



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Introduction

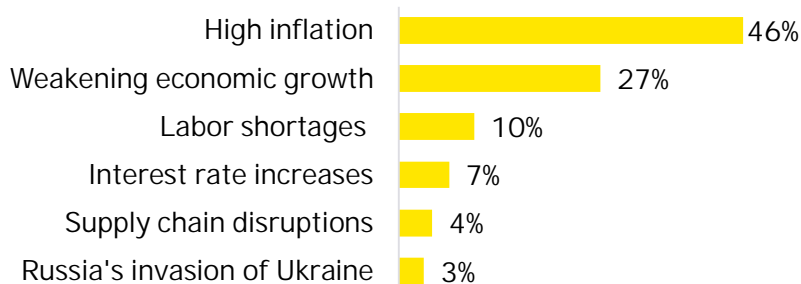
The Tax Council (TTC) and Ernst & Young LLP periodically produce the Business Tax Policy Barometer, providing insights on the business community's perceptions on a variety of business tax and other key policy issues.¹ This 21st Barometer tracks the views reported from October 25 through November 8, 2022.

Results from the Barometer show that high inflation is the top concern for the business community, with 73% of respondents also expecting a US recession within the next 12 months. Respondents view enactment of relief from significant TCJA revenue raisers as unlikely.

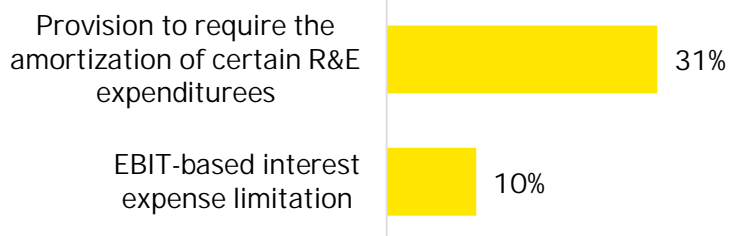
Business and tax executives need to stay informed of the key policy issues that could impact their operations.

Scroll through the following pages to learn more about how respondents are thinking about issues such as the US economic outlook, global tax developments, expiring tax provisions, the future US policy focus, state tax policy, and sustainability and carbon pricing.

Greatest concern



Percentage saying at least very likely relief is enacted before the end of 2022 for the following provisions



¹ The first Barometer launched in 2013 and was limited to views on US tax reform. This 21st Barometer tracks views reported by 109 leading US tax executives and practitioners. Results are based on an online survey conducted by the EY Quantitative Economics and Statistics (QUEST) practice.



Economic outlook

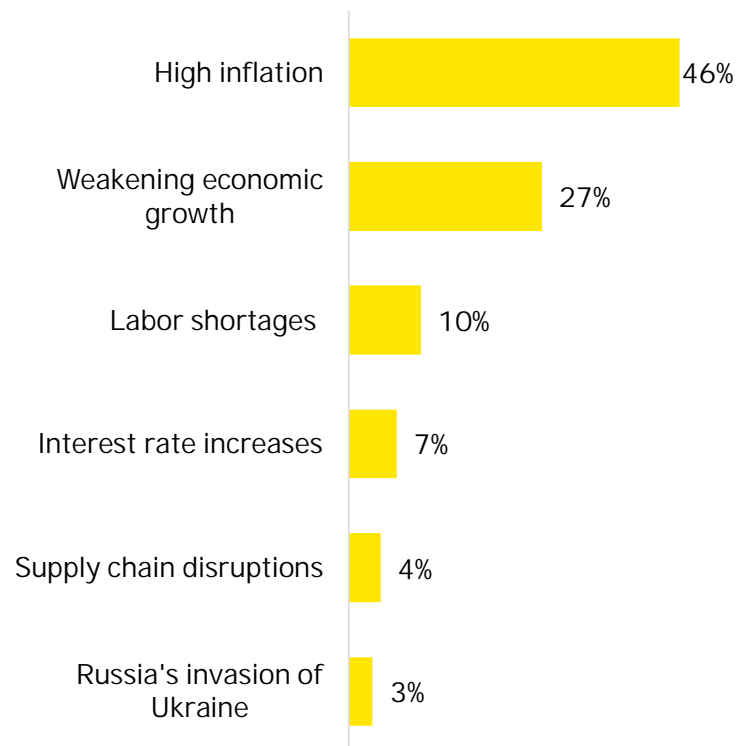
High inflation and weakening economic growth top the list of respondents' greatest concern for their company, industry or organization. Nearly half of respondents believe that high inflation is their greatest concern (up from 13% in October 2021).

Weakening economic growth is viewed as the top concern by nearly 30% of respondents. Respondents put the likelihood of the US economy falling into recession within the next 12 months at 73%.

About 10% of respondents see labor shortages as their top concern (down from 14% in October 2021).

Fewer than 10% of respondents see interest rate increases, supply chain disruptions or Russia's invasion of Ukraine as their top concern.

Greatest concern



73%

Average likelihood that the US economy will experience a recession within the next 12 months, according to respondents



Action in 2022 on tax extenders

Two major revenue raising provisions included in the Tax Cuts and Jobs Act (TCJA) went into full effect at the beginning of 2022. They are the EBIT-based interest expense limitation, which is based on earnings before interest, taxes and depreciation (EBIT), and the amortization of certain research and experimentation (R&E) expenditures.

Nearly a third of respondents (31%) say relief from the requirement to amortize certain R&E expenditures will be enacted.

Only 10% said relief from the limitation on EBIT-based interest expense will be enacted (44% said not likely at all).

31%

Think it very likely (at least) that relief from the TCJA requirement to amortize certain R&E expenditures will be enacted

10%

Think it very likely (at least) that relief from the TCJA EBIT-based interest expense limitation will be enacted



Global tax developments – OECD’s Pillar One

Respondents are very doubtful that a sufficient number, or critical mass of countries, including the United States, will ratify Pillar One by Summer 2023 to permit Pillar One to go into effect in 2024. Respondents give a 16% average likelihood that this will happen.

Respondents generally think it is highly likely (74% chance) that some countries will enact new digital services or other similar unilateral taxes if Pillar One does not move forward by Summer 2023.

16%

The likelihood* that Pillar One will be ratified by enough countries, including the United States, by Summer 2023 to permit Pillar One to go into effect in 2024

74%

The likelihood* that some countries would enact new digital service or other similar unilateral taxes if Pillar One fails to move forward by Summer 2023

* The average likelihood as indicated by respondents.

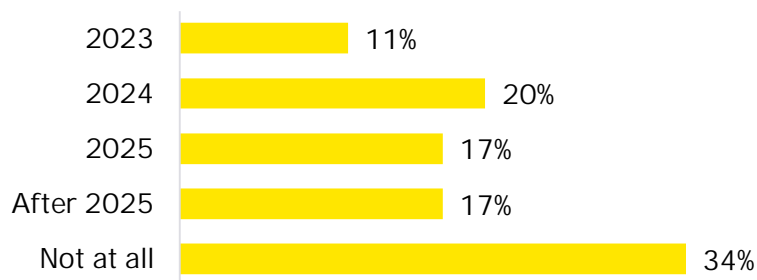


Global tax developments – OECD’s Pillar Two

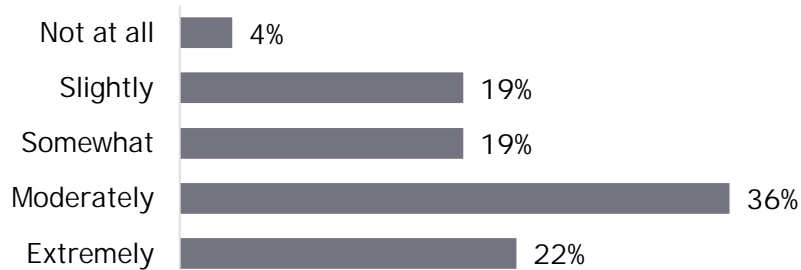
Respondents are pessimistic that a substantial majority of the Inclusive Framework countries will ratify Pillar Two of the Organization for Economic Co-operation and Development’s base erosion and profit sharing (BEPS) 2.0 model legislation in the next year. Respondents place a roughly 65% likelihood that a substantial majority will eventually ratify Pillar Two, but only a 11% likelihood in 2023.

Respondents are very concerned about misalignment between US international tax rules and those abroad. Of those surveyed, 58% said they are moderately or extremely concerned about the misalignment compared to only 4% who are not concerned at all. The most popular reason for concern was duplicate taxes on the same income if the US does not respond to foreign changes.

Likelihood that a substantial majority of Inclusive Framework countries will ratify Pillar Two of the BEPS 2.0 model legislation in the following years



Concern with misalignment between international tax rules in the United States and abroad



51%

Of respondents are concerned about misalignment because of potential double taxation

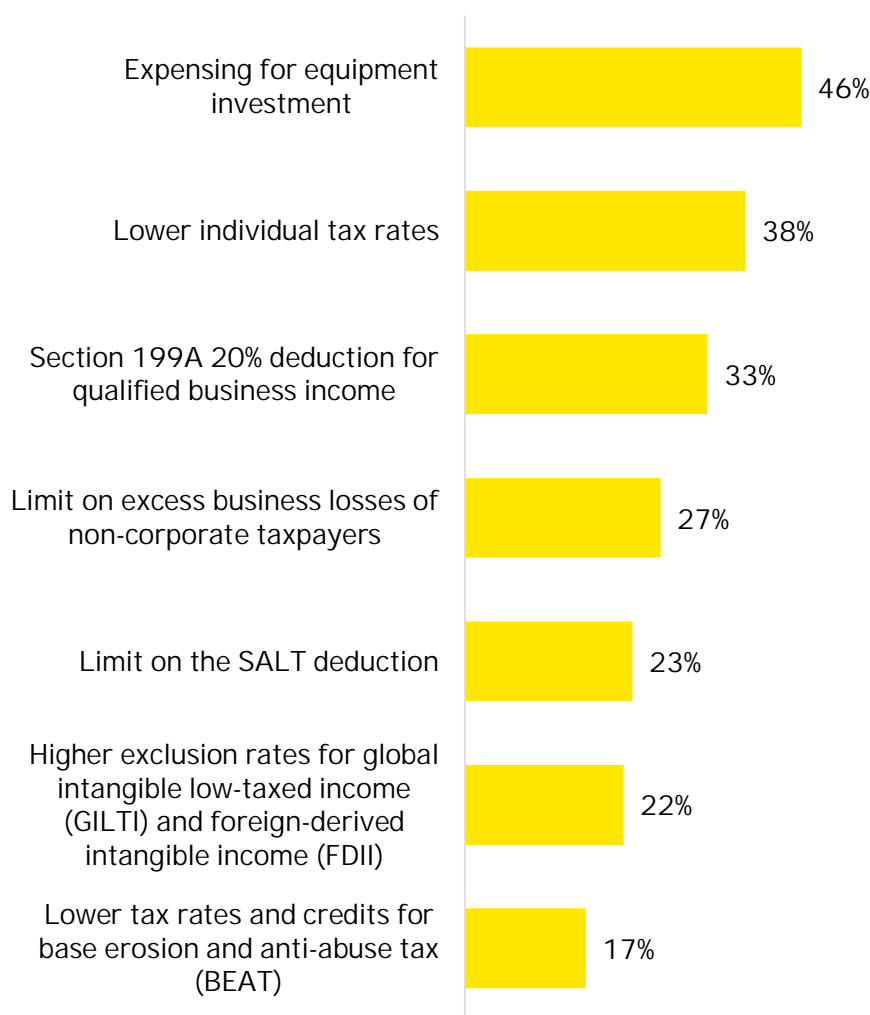


Sunset of TCJA provisions in 2026 and 2027

A number of major tax provisions enacted under the TCJA are scheduled to sunset at the end of 2025 or 2026. Many are individual tax provisions, such as the lower top individual tax rate, the Section 199A 20% deduction for qualified business income, and the limit on the SALT deduction. TCJA provisions for the expensing of equipment investment and international tax provisions are also scheduled to sunset.

Nearly one-half of respondents (46%) believe expensing for equipment investment will be extended. Thirty-eight percent of respondents think the lower individual tax rates will be extended; followed by 33% for the Section 199A 20% deduction for qualified business income; 27% for the limit on excess business losses of non-corporate taxpayers; and, 23% for the limit on the SALT deduction. Only 22% and 17% of respondents, respectively, think the higher exclusion rates for GILTI or lower tax rates/credits for BEAT will be extended.

Percentage saying at least very likely the following TCJA provisions are extended





Environmental, social and governance (ESG) activity and carbon pricing

ESG program maturity

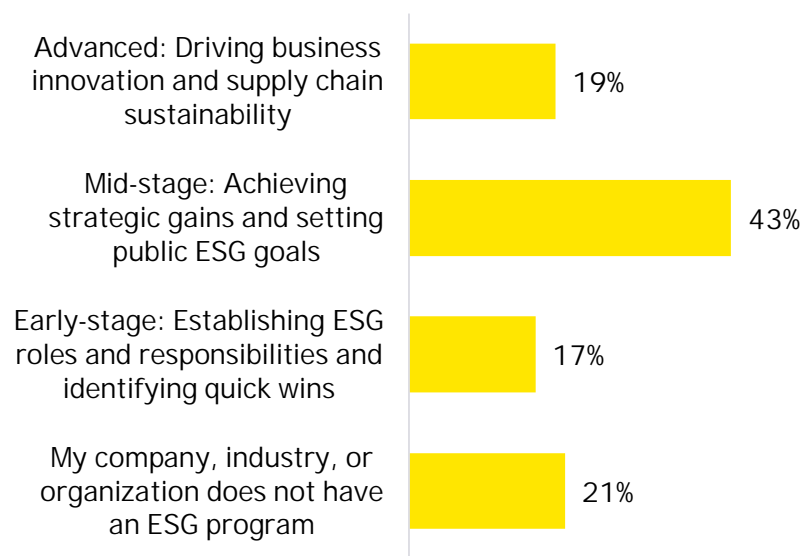
For the most part, respondents' companies, industries and organizations have already developed ESG programs. Nearly a fifth of programs are in the advanced stage and are driving business innovation and supply chain sustainability. Over 40% of ESG programs are mid-stage, achieving strategic gains and setting public ESG goals. Nearly 40% of respondents' companies, industries and organizations are either at an early stage or do not have an ESG program.

Carbon pricing

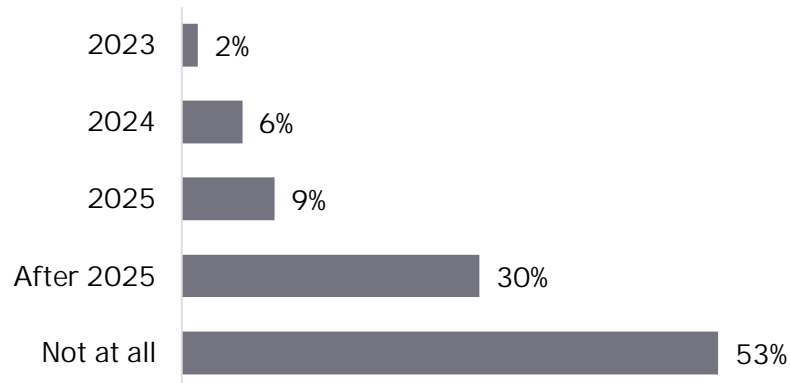
Respondents are very doubtful that the US will enact a carbon pricing regime within the next four years, if ever.

Only 17% of respondents see a carbon pricing regime being enacted through 2025, 30% see one being enacted after 2025, and 53% do not believe one will ever be enacted.

ESG program maturity



Likelihood carbon pricing regime is enacted in the United States in the following years





The policy outlook going forward

In addition to inflation being respondents' biggest concern, 52% of respondent believe the US administration and Congress will focus most on reducing inflation over the next four years.

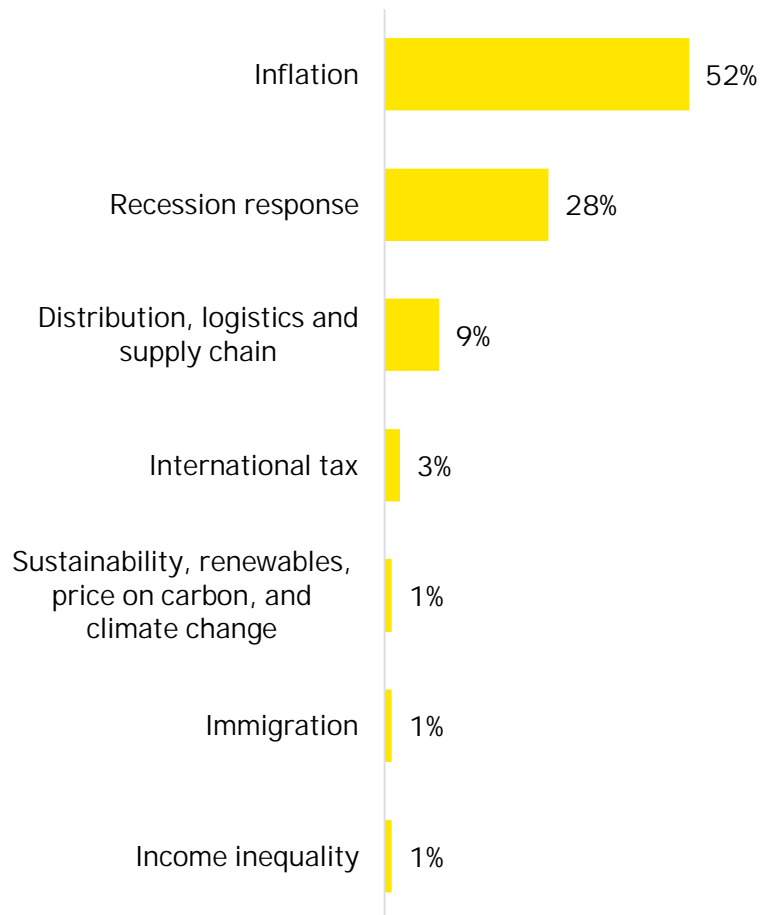
Nearly 30% of respondents believe the top focus will be responding to a possible US recession.

With respect to state tax policy, respondents believe the likelihood that more states will adopt or extend sales taxes to also include services within the next 12 months is close to 50%.

47%

Average likelihood that more states will adopt or extend sales taxes to also include services within the next 12 months

Top focus areas for US administration and Congress over next four years





About The Tax Council and Ernst & Young LLP

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Contacts

For more information on the Barometer, please contact the following:

Robert Carroll, Ph.D.

QUEST Co-leader
Ernst & Young LLP

Washington, DC
+1 202 327 6032
robert.carroll@ey.com

Lynda K. Walker, Esq.

President
The Tax Council

Washington, DC
+1 202 414 1460
lwalker@thetaxcouncil.org

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