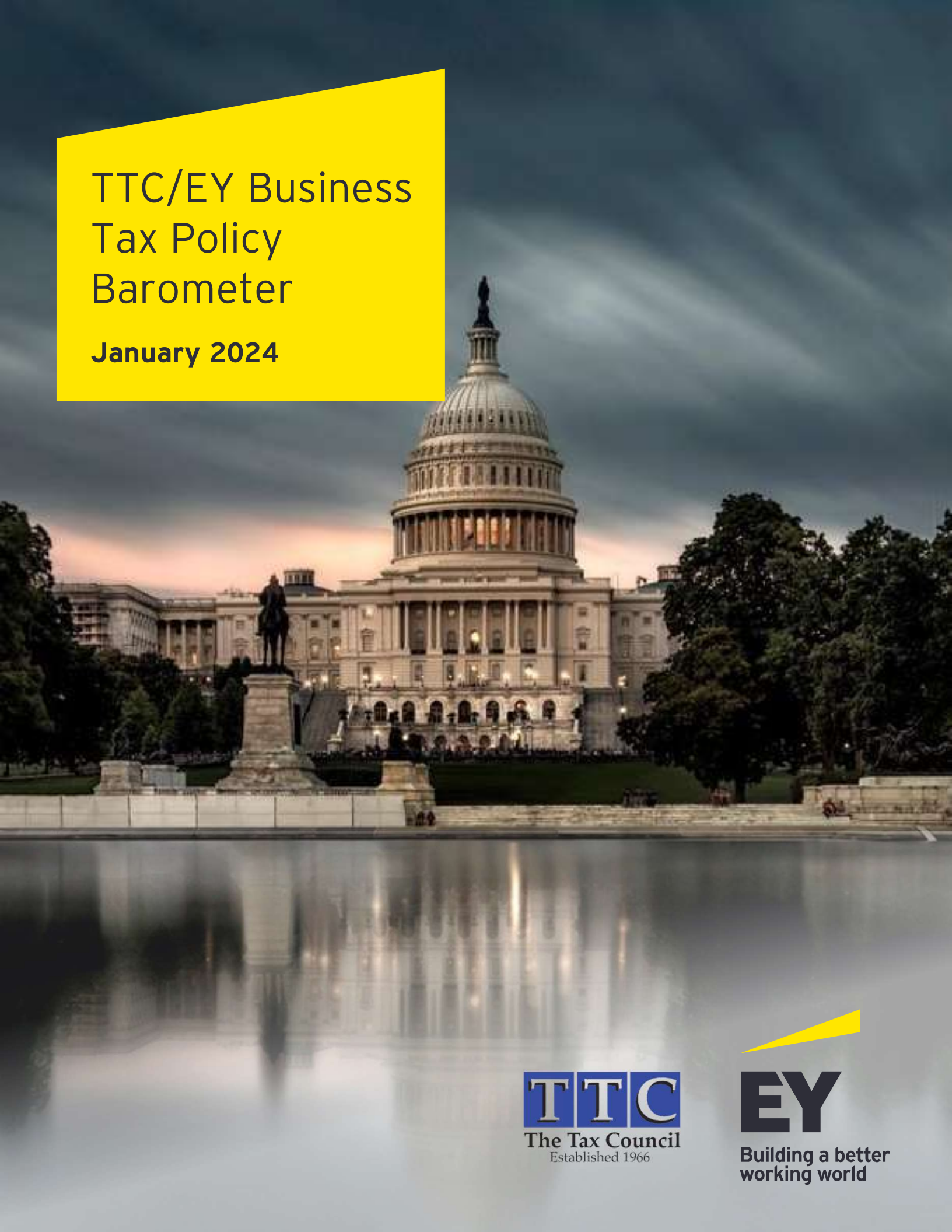


TTC/EY Business Tax Policy Barometer

January 2024



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Introduction

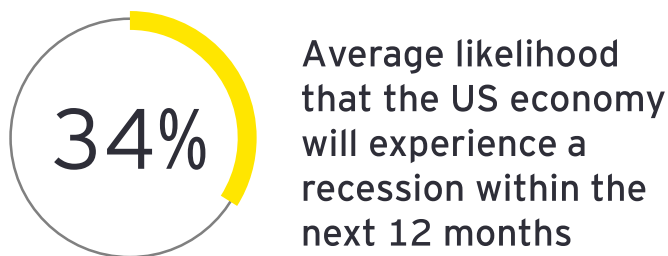
The Tax Council (TTC) and Ernst & Young LLP produce the Business Tax Policy Barometer, providing insights on the business community’s perceptions on a variety of business tax and other key policy issues.¹ This 22nd Barometer tracks views reported from December 8, 2023, through January 7, 2024, and assesses perceptions on issues such as the US economic outlook, global tax developments, tax extenders, future US policy focus, sustainability and artificial intelligence (AI).

The Barometer suggests that the likelihood for a recession in the United States within the next 12 months has fallen off sharply and most respondents expect the Federal Reserve to begin to lower interest rates in the second quarter of 2024.

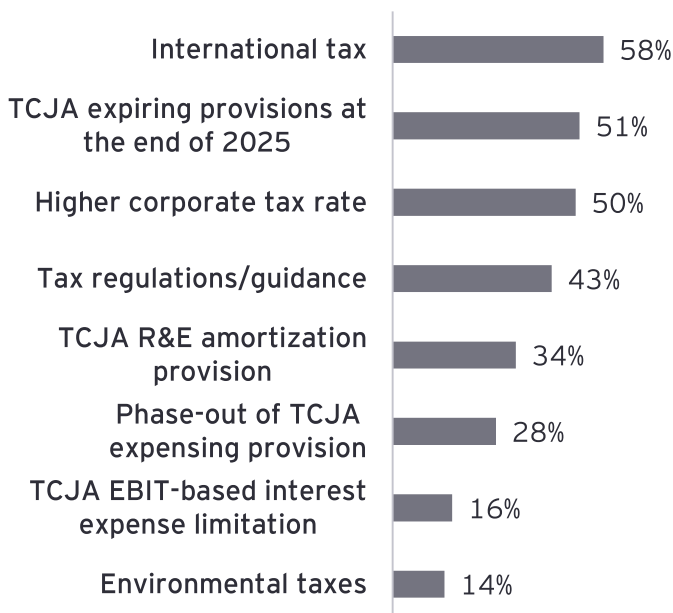
The three tax policy issues of greatest concern were international tax, the Tax Cuts and Jobs Act (TCJA) provisions expiring at the end of 2025, and the possibility of a higher corporate tax rate.

With the recently announced Tax Relief for American Families and Workers Act of 2024 by House Ways & Means Committee Chairman Jason Smith (R-MO) and Senate Finance Committee Chairman Ron Wyden (D-OR) that addresses TCJA pre-cliffs and the Child Tax Credit, among other items, business and tax executives need to stay informed of the key policy issues that could impact their operations.

¹ The first Barometer launched in 2013 and was limited to views on US tax reform. This 22nd Barometer tracks views reported by 90 leading US tax executives and practitioners. Results are based on an online survey conducted by the EY Quantitative Economics and Statistics (QUEST) practice.



Greatest tax policy concern

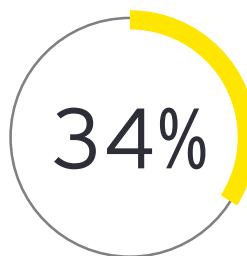




Economic outlook

Likelihood of a US recession

Respondents think the average likelihood that the US economy will experience a recession over the next 12 months is 34%, which is significantly less than the response of 73% provided in the November 2022 Barometer.

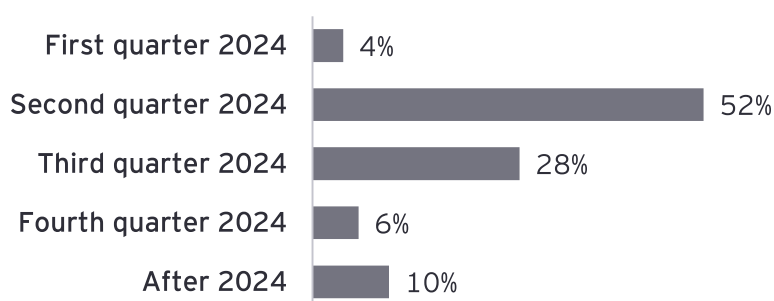


Average likelihood that the US economy will experience a recession within the next 12 months

When will the Federal Reserve lower rates?

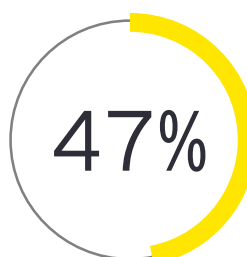
A majority of respondents (52%) believe the Federal Reserve will begin to lower interest rates in the second quarter of 2024, while over a quarter (28%) believe the rate cuts will begin in the third quarter of 2024.

Perception as to when the Federal Reserve will lower interest rates



Likelihood of a federal government shutdown

The prospect of a federal government shutdown in 2024 looms. Respondents give the federal government a 47% likelihood of shutting down in 2024.



Average likelihood of a federal government shutdown in 2024



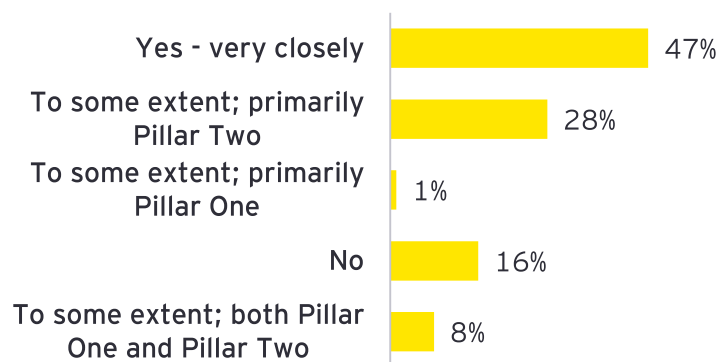
Global tax developments

Forty-seven percent of respondents have been very closely following both the Organisation for Economic Co-operation and Development's (OECD) base erosion and profit sharing (BEPS) 2.0 Pillar One and Pillar Two over the past year. For those following only one of these initiatives, the main focus has been on Pillar Two (28%); with 1% focused on Pillar One.

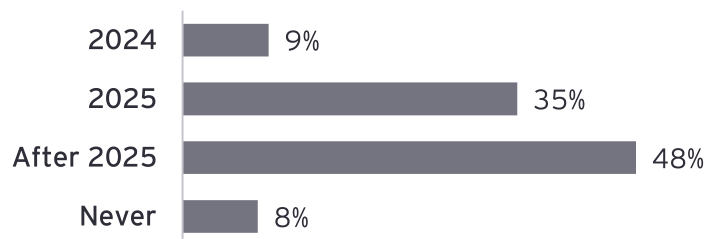
Forty-four percent of respondents believe that a substantial majority of the Inclusive Framework countries will ratify Pillar Two of the OECD BEPS 2.0 model legislation by the end of 2025. Forty-eight percent believe a substantial majority will ratify after 2025, and 8% believe a substantial majority will never ratify.

Respondents are not optimistic that the US will enact legislation consistent with Pillar Two in 2024 or 2025. There is a 40% likelihood for enactment after 2025 and a 40% likelihood of no enactment.

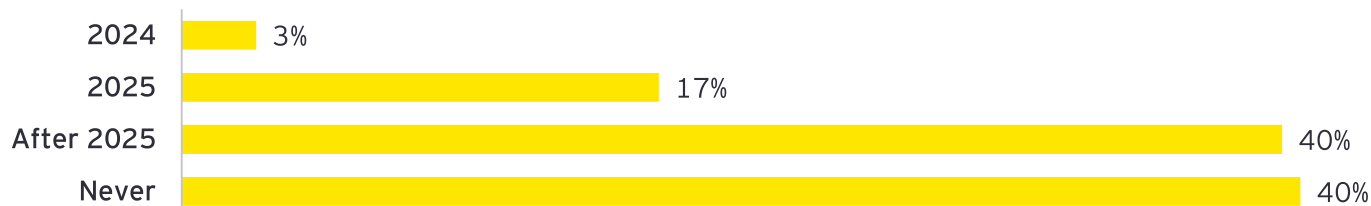
Extent following OECD BEPS 2.0



Year Pillar Two model legislation will be in effect for a substantial majority of Inclusive Framework countries



Likelihood international tax changes consistent with Pillar Two are enacted within US in next several years





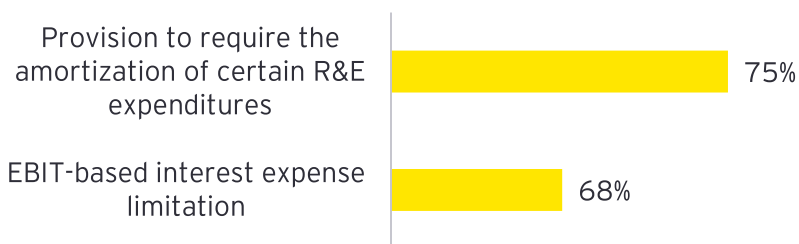
Tax extenders

Two major revenue raising provisions included in the TCJA went into full effect at the beginning of 2022: 1) the EBIT-based interest expense limitation, which is based on earnings before interest, taxes and depreciation (EBIT); and 2) the amortization of certain R&E expenditures.

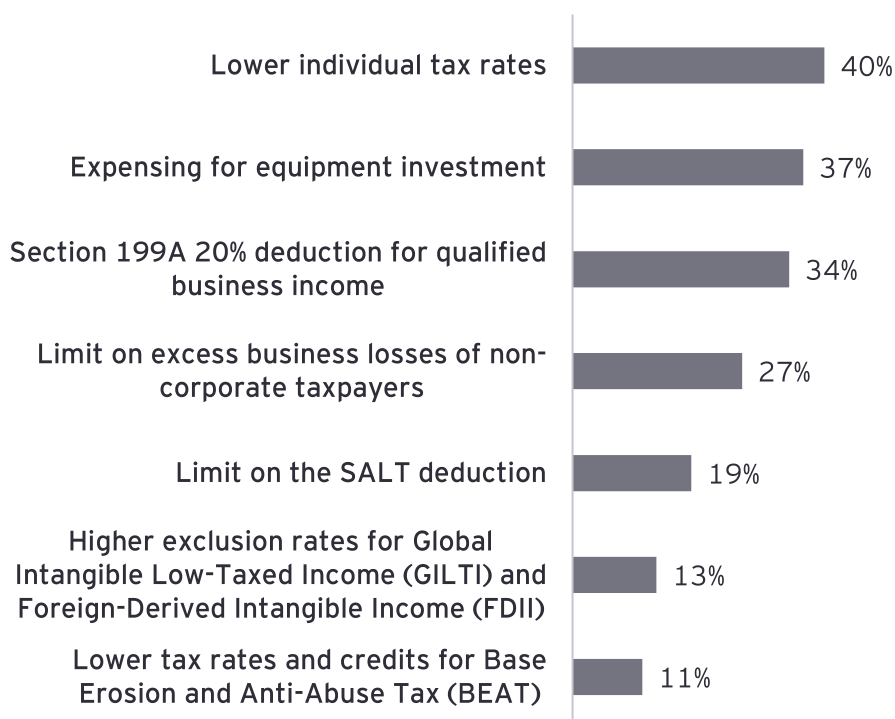
- ▶ Three-quarters (75%) of respondents expect relief to be enacted in 2024 from the provision requiring amortization of certain R&E expenditures.
- ▶ Respondents are slightly less optimistic for enactment of relief from the limitation on the EBIT-based interest expense - 68% expect enactment of relief in 2024.

A number of major provisions included in the TCJA are scheduled to expire starting at the end of 2025. Respondents think it is most likely that the lower individual tax rates (40%), expensing for equipment investment (37%), and the Section 199A deduction for qualified business income (34%), will be extended. Only 13% see higher exclusion rates for GILTI and FDII and 11% see the lower tax rates and credits for BEAT being extended.

Percentage saying at least very likely relief is enacted in 2023 or 2024 for the following provisions



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



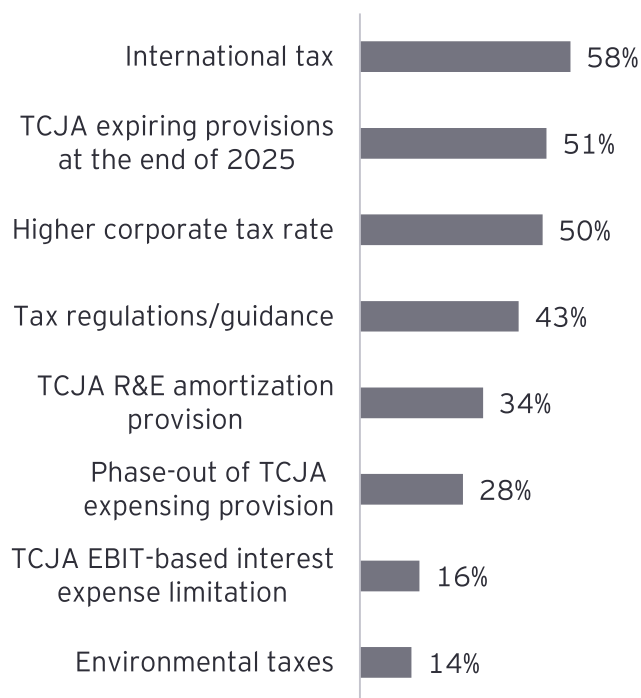


Tax policy outlook

Greatest tax policy concern

The biggest tax policy concern for respondents is international tax (58%). This is followed by the TCJA provisions that expire at the end of 2025 (51%) and the potential for a higher corporate income tax rate (50%).

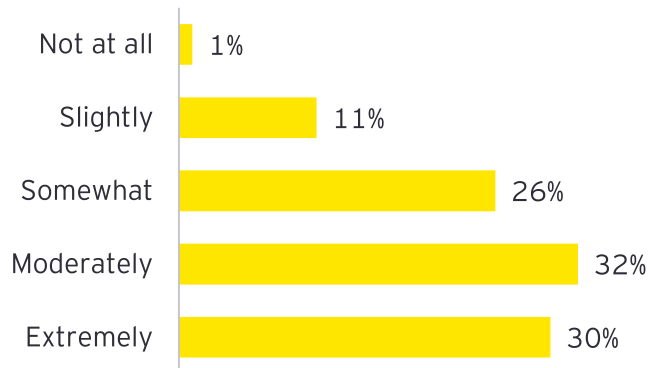
Greatest tax policy concern



Likelihood of corporate rate increase

Aligning with concerns over a higher corporate income tax rate, respondents believe that an increase in the corporate rate tax is likely to be considered within the next several years (62% say moderately or extremely likely, 26% say somewhat likely, and 12% say not at all or slightly likely).

Likelihood a corporate rate increase will be considered within the next several years





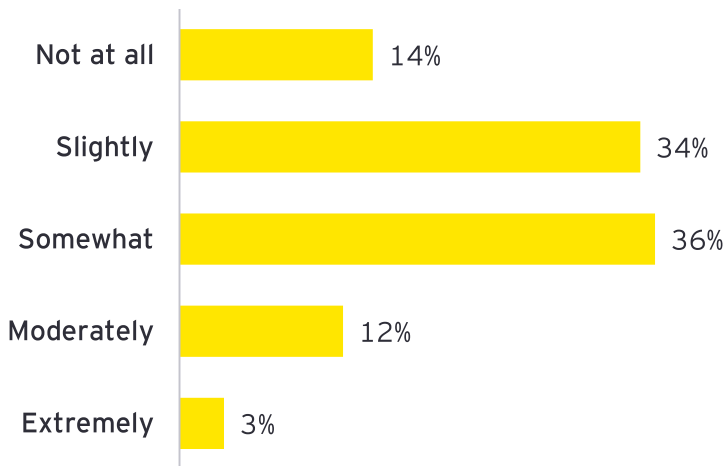
Sustainability and AI

About half of respondents (51%) think it is at least somewhat likely that the United States will enact a carbon pricing regime, such as a carbon tax, within the next decade. Fourteen percent of respondents place a zero likelihood for enactment and 34% say enactment is only slightly likely.

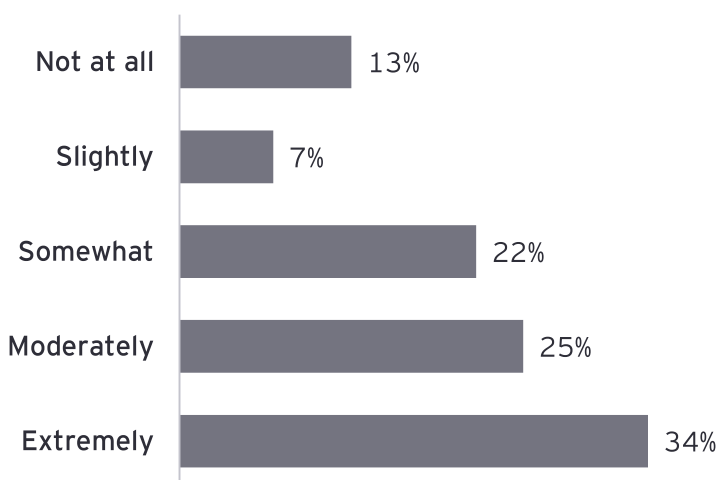
There is significant interest in the tax incentives included in the Inflation Reduction Act (IRA). Over one-third (34%) of respondents are extremely interested, while one-quarter (25%) are moderately interested and 22% are somewhat interested. Thirteen percent are not at all interested in the IRA tax incentives.

About half of respondents are either currently using AI (17%) or planning on using AI (32%). The other half are not currently using or planning to use AI (51%).

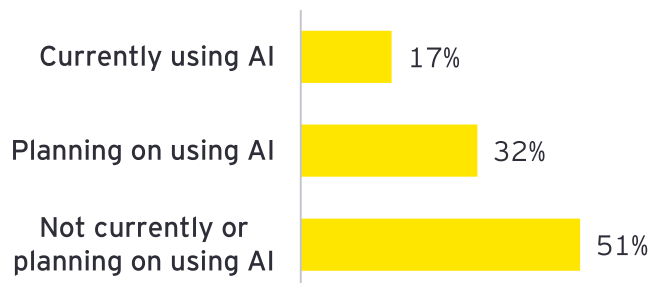
Likelihood a carbon pricing regime will be enacted in the United States in the next decade



Level of interest in Inflation Reduction Act tax incentives



Use of generative AI tools





About The Tax Council and Ernst & Young LLP

The Tax Council (www.thetaxcouncil.org) is a Washington, DC-based non-profit, membership organization promoting sound tax and fiscal policies since 1966. Our membership is comprised of (but not limited to) Fortune 500 companies, leading accounting and law firms, and major trade associations. The Tax Council's mission is to provide leadership in the tax and fiscal policy arenas, to contribute to a better understanding of complex tax laws and regulations through informational forums and to advocate sound tax and fiscal policies that encourage capital formation and preservation in order to enlarge productive investment and generate national economic growth. We provide a regular forum (luncheons and conferences) for our members to meet with key tax policy decision makers from the U.S. Congress to discuss important current tax issues; sponsor an annual three-day Spring Tax Policy Conference; and develop tax policy information and positions for public dissemination. The Tax Council is affiliated with the Tax Council Policy Institute (TCPI), a non-partisan and non-profit 501(c)(3) education and public policy research organization. For more information, please visit www.tcpi.org.

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