Impact of the Political Landscape
On Income Tax Reporting

Congress Set to Pass Significant Extenders Package

- House and Senate negotiators released an extenders agreement December 15 that would make permanent several business, charitable giving, and individual tax incentives
  - R&D
  - S corp. reduced built-in gains holding period
  - Active financing exemption
  - Sec. 179 expensing
  - Charitable changes
  - State and local tax deduction
- Five-year extension:
  - Bonus depreciation phased down (50% in 2015; 40% in 2016; 30% in 2017)
  - Sec. 954(c)(6) lookthrough treatment
- Two-year extension for the remaining extenders
  - Medical device excise tax (MDET) suspended for two years
- What do the two parties get from this legislation?
  - For Democrats, a chance to seal in several expansions of tax credit refundability enacted in the 2009 stimulus law
  - For Republicans, a chance to build a better baseline for tax reform

Tax Provisions Also Included in Omnibus Spending Bill

- Political trade-offs resulted in some tax provisions being included in the omnibus funding bill that was also released December 15
  - Renewable energy
    - Five-year extension of the production tax credit for wind (phased-down: 80% in 2015; 60% in 2016; 40% in 2017)
    - Solar ITC extended through 2022 also phased-down
  - Healthcare related taxes
    - Two-year delay of the so-called "Cadillac" tax on certain high cost employer-sponsored health insurance plans
    - One-year suspension of the health insurance tax
Politics of the Current Tax Reform Debate

Disagreements over Size and Scope Hinder Tax Reform Efforts this Year

**Comprehensive tax reform**
- White House made clear that reducing top marginal tax rates for individuals is off the table
- Congressional Republicans insist that reducing rates for both corporate and individual taxpayers is necessary for tax reform

**“Business-only” tax reform**
- White House calls for “business only” tax reform that reduces corporate rate, offset with elimination of certain tax expenditures
- Congressional Republicans insist that tax reform address pass-throughs as well (difficult to attain since marginal rate cuts for individuals off the table)

**International-only tax reform**
- Can reform of international tax rules be coupled with funding for highways?

International Tax Reform for Highways Seemed Promising

1. A gas tax increase, last lifted in 1993 and consistent with the "user pays" method of traditional highway financing, is politically toxic
2. Repatriation of cash parked overseas is long-term funding solution and deemed "least bad" idea by policymakers
3. Taxing committee staff look at additional revenue from stock repurchase, foreign repatriation of U.S. based companies and corporate BEPS process as evidence that international tax rates should be addressed sooner rather than later
International Tax Reform – Moving Pieces

Most of the significant details have not yet been released, but the general contours would likely include:

- **Carrots**
  - Transition to a territorial style tax system
  - Innovation box

- **Sticks**
  - Deemed repatriation of previously deferred foreign income
  - Base erosion safeguards – possibly including a minimum tax on future foreign earnings
  - Other revenue raisers

Why International Tax Reform for Highways Stalled

Politics of “international only” reform is a tough sell to members with many focused on deferring discussion until the next administration.

Business support didn’t materialize:
- No reduction of corporate tax rate
- No benefit (rate cut or otherwise) for pass-throughs
- High cost of innovation box imposes pressure to either scale it back or come up with other revenue raisers

Disagreement over how much to spend on highways with Democrats calling for a much larger spending increase than Republicans are willing to support.

These are NOT unresolvable barriers; international tax reform is something to keep an eye on.

What Does the Future Hold?
Legislative Sprint to Year-End

Debt ceiling/government funding deal finalized
• Debt ceiling suspended through March 15, 2017
• Spending levels for government funding generally set through Sept. 30, 2017

Deadlines that need to be addressed
• Highway program authorization
• Tax extenders

Other items Congress may do
• Reconciliation used to repeal the Affordable Care Act

Ways & Means Committee
• Tax agenda for new Committee chairman

Problem Not Solved: Near-Term Deficits Manageable, but Set to Climb Again after 2018

What's Not Driving Long-Term Deficits?
### 2016 Presidential Contenders Further Muddy the Waters

<table>
<thead>
<tr>
<th>Tax Cuts and Jobs Act</th>
<th>Deductions</th>
<th>Repeal 3.8% NII tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trump</td>
<td>Repeat 3.8% NII tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Repeat 3.8% NII tax</td>
<td></td>
</tr>
<tr>
<td>Bush</td>
<td>Repeat 3.8% NII tax</td>
<td></td>
</tr>
<tr>
<td>Rubio</td>
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<td></td>
</tr>
<tr>
<td>Carson</td>
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<td></td>
</tr>
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</tr>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Santorum</td>
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</tbody>
</table>

### 2016 Democratic Presidential Contenders

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<tbody>
<tr>
<td>Clinton</td>
<td>Repeat 3.8% NII tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Repeat 3.8% NII tax</td>
<td></td>
</tr>
<tr>
<td>Sanders</td>
<td>Repeat 3.8% NII tax</td>
<td></td>
</tr>
</tbody>
</table>

### Top Individual Rates

- **Bush**: 28%
- **Rubio**: 25%
- **Trump**: 20%
- **Carson**: 28%
- **Cruz**: 25%
- **Huckabee**: 20%
- **Paul**: 20%
- **Santorum**: 20%

### Capital Gains / Dividends

- **Bush**: No position
- **Rubio**: 20% top rate
- **Trump**: Not taxable
- **Carson**: 20% top rate
- **Cruz**: Not taxable
- **Huckabee**: 20% top rate
- **Paul**: 20% top rate
- **Santorum**: 20% top rate

### Itemized Deductions

- **Bush**: Limit value of others to 2% of AGI
- **Rubio**: Limit value of others to 2% of AGI
- **Trump**: Limit value of others to 2% of AGI
- **Carson**: Limit value of others to 2% of AGI
- **Cruz**: Limit value of others to 2% of AGI
- **Huckabee**: Limit value of others to 2% of AGI
- **Paul**: Limit value of others to 2% of AGI
- **Santorum**: Limit value of others to 2% of AGI

### Full Expensing

- **Bush**: Yes
- **Rubio**: Yes
- **Trump**: Yes

### Limit Interest Deduction

- **Bush**: Yes
- **Rubio**: Yes
- **Trump**: Yes

### International

- **Bush**: Full Expensing
- **Rubio**: Full Expensing
- **Trump**: Full Expensing

### Estate Tax

- **Bush**: Repeal
- **Rubio**: Repeal
- **Trump**: Repeal

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*Source: Estimates from the Tax Foundation"
### The Partisan Divide: Most Important Economic Issue According to Early State Political Insiders

<table>
<thead>
<tr>
<th>Economic Growth 69%</th>
<th>Economic Inequality 81%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Republicans</strong></td>
<td><strong>Democrats</strong></td>
</tr>
<tr>
<td>Economic Growth</td>
<td>Economic Inequality</td>
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Source: POLITICO Caucus November 2015 survey of a bipartisan group of influential political strategists, operatives and activists in Iowa, New Hampshire, South Carolina and Nevada.

### From the Campaign Trail to Enactment – A Long Journey

#### Summary of the Administration's Revenue Proposals, February 1993

<table>
<thead>
<tr>
<th>Provision</th>
<th>5 year estimate</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repeal deferral for excessive accumulated foreign earnings</td>
<td>$800 million</td>
<td>Reduce foreign tax avoidance</td>
</tr>
<tr>
<td>Royalties in passive basket of foreign tax credit</td>
<td>$2.8 billion</td>
<td>Raise $45 billion over four years.</td>
</tr>
<tr>
<td>Revise foreign tax credit for oil and gas and shipping income</td>
<td>$2.6 billion</td>
<td></td>
</tr>
<tr>
<td>Transfer pricing compliance initiative</td>
<td>$375 million</td>
<td></td>
</tr>
</tbody>
</table>

Total: $6.57 billion

Source: JCX-2-93

#### Estimated Budget Effects of Revenue Provisions in H.R. 2264, the Omnibus Budget Reconciliation Act of 1993

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</tr>
</thead>
<tbody>
<tr>
<td>Repeal deferral for excessive accumulated foreign earnings</td>
<td>$251 million</td>
<td>Reduce foreign tax avoidance</td>
</tr>
<tr>
<td>Revise foreign tax credit for oil and gas and shipping income</td>
<td>$2.5 million</td>
<td></td>
</tr>
<tr>
<td>Transfer pricing compliance initiative</td>
<td>$370 million</td>
<td></td>
</tr>
<tr>
<td>Treatment of exports of unprocessed softwood timber</td>
<td>$390 million</td>
<td></td>
</tr>
</tbody>
</table>

Total: $3.5 billion

Source: JCX-11-93

### “Do you approve of the way Congress is handling its job?”

![Approving Congress graph]

Source: Deloitte analysis of Gallup historical polling data, simple average of approval rate each year, through 9/13/2015 (http://www.gallup.com/poll/1600/congress-public.aspx)

16.7% Approval
Primary turnout has fallen to record lows…

…while primary voters are more partisan than the general electorate

Electorate increasingly motivated by negative emotions

“Positive Partisans”: like their own party more than they dislike the opposing party

“Negative Partisans”: dislike the opposing party more than they like their own party

Source: American National Election Studies
Per a poll released November 23, 2015, this is the percentage of Democrats and Republicans who approve President Obama’s executive action to do what?

<table>
<thead>
<tr>
<th>Action</th>
<th>Democrats</th>
<th>Republicans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardon two turkeys instead of one</td>
<td>59%</td>
<td>11%</td>
</tr>
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**Final Takeaways**

- With few “swing” seats, the House is likely to remain in Republican control for the foreseeable future – even with recent leadership struggles
- The election math determining future control of the Senate is interesting
  - In 2016, there will be 24 Republican incumbents and 10 Democratic incumbents
  - In 2018, the math reverses again as there are 23 Democratic incumbents, 8 Republican incumbents and 2 Independent seats
- Little expectation of major legislation in a presidential election year; focus for both the press and public increasingly on 2016 races
- Expect the large pool of 2016 presidential candidates to remain until primaries/caucuses begin early next year with tax policy being a central theme

**Things to Think About: Political Landscape**

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- Expect the large pool of 2016 presidential candidates to remain until primaries/caucuses begin early next year with tax policy being a central theme
Things to Think About: Tax Reform Landscape

- Divining tax policy in 2017 and beyond is difficult when we don’t know who will win and what their agendas will be.
- That said, ignoring the tax reform process could be a mistake.
  - Despite strong headwinds facing taxwriters, conceptually everyone still agrees that tax reform is necessary.
  - Reform remains inevitable and the work done now lays the foundation for future efforts.
- OECD BEPS effort introduces additional risk into the tax policy environment.

Questions?

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