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CFO VISION 2014

# Navigate your world

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The Deloitte logo is positioned in the top left corner of the slide. It features the word "Deloitte" in a bold, dark blue sans-serif font, followed by a small green dot. The background of the slide is a stylized, abstract map with various shades of blue and green, representing different geographical areas or data points.

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## Tax policy and politics:

*Where we are and where we might go next*

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Tax reform:  
Irresistible forces  
vs. immovable objects

Three irresistible forces

## Three irresistible forces

1. High statutory tax rates, especially for corporations
2. A narrow tax base, which creates economic distortions
3. A worldwide tax system that is becoming increasingly outdated

## **Inversions – problem to be solved? Or symptom of broader weaknesses in the tax code?**

This year, several companies have undertaken (or attempted to undertake) an inversion transaction.

- Several Democrats have suggested retroactively tightening 2004's anti-inversion rules to block this new type of inversion or making legislative or regulatory changes to limit tax benefits available to inverters.
- GOP members have generally expressed skepticism of fixes outside the context of fundamental tax reform and are generally opposed to retroactive effective dates.

With little prospect of legislative action, the Treasury issued a notice in September of forthcoming regulations to deter inversions and remove tax benefits available to companies that do invert.

# The immovable objects

## **Immovable Object #1: Tax reform means tough individual choices on the individual side**

1. New limits on deductions for charitable contributions and mortgage interest (Camp)
2. Immediate and full repeal of most other itemized deductions, including those for state and local taxes (Camp)
3. 10 % surtax applied to a broad base of income (but with exception for manufacturing income) (Camp)
4. Dollar-for-dollar phase-out of exclusion of capital gains on sale of principal residence when joint filers' MAGI exceeds \$500K (Camp)
5. Top individual tax rate of 35 %, but applied to married couples with taxable incomes over \$140,000 (Wyden)

## **Immovable Object #2: Tax reform means tough choices for businesses, too**

1. Slower cost recovery (Baucus, Camp, Wyden)
2. Amortize some or all of R&E and advertising expenditures (Baucus, Camp)
3. Phase out Section 199 manufacturing deduction (Camp, Wyden)
4. Repeal LIFO (Baucus, Camp, Wyden) and like-kind exchanges (Baucus, Camp)
5. Repeal many energy-related expenditures (Camp, Baucus); create streamlined energy credits (Baucus)
6. Prevent the further migration of C Corps into REITs and PTPs (would also affect some existing entities) (Camp)
7. Repeal deferral (Wyden)

## **Immovable Object #2: Tax reform means tough choices for businesses, too (continued)**

8. Tax “systemically important financial institutions” (Camp)
9. Restrict employee compensation deduction to first \$1M (no performance-based exception) (Camp)
10. Limit value of corporate interest deduction (Wyden)
11. Tax carried interest as ordinary income (Camp)
12. Limit treaty benefits for inbound companies (Doggett Treaty Raiser) (Camp)

## **Immovable Object #3: Other policy tensions still to be resolved**

### **1. What is the “right” level of progressivity?**

### **2. Reducing marginal tax rates**

- General agreement: Corporate tax rates need to come down
- Disagreement: Should reform also lower individual rates?
- Related: Comprehensive reform or business only?

### **3. International tax**

- General agreement: Need to increase competitiveness
- Disagreement: Is territoriality the answer? Or should we patch holes in the current worldwide tax system?

## **Immovable Object #3: Other policy tensions still to be resolved (continued)**

### **4. Business tax reform**

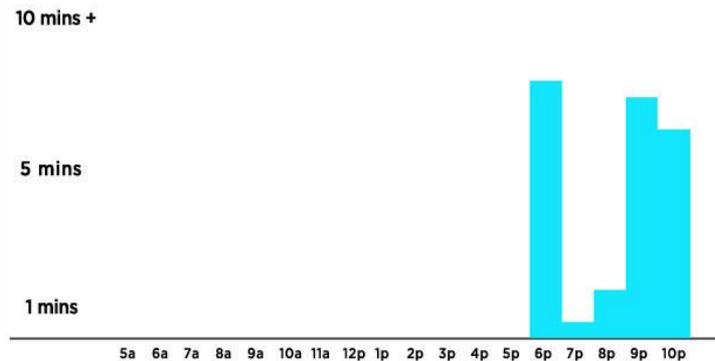
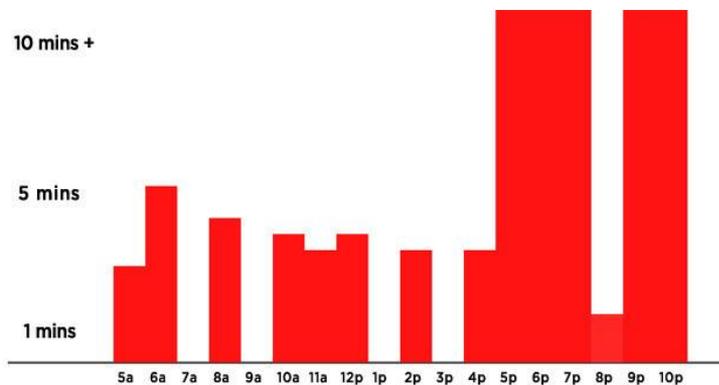
- General agreement: Companies want lower tax rates
- Disagreement: Companies are not monolithic and these differences must be addressed:
  - Domestic vs. multinational
  - Inbound vs. outbound
  - Services vs. manufacturing
  - Highly leveraged vs. well-capitalized
  - C Corps vs. pass-throughs
  - What to do with temporary revenues from transition

### **5. Should tax reform be used to raise revenue?**

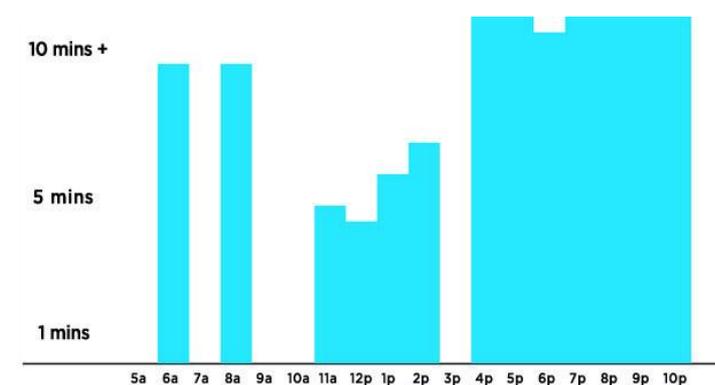
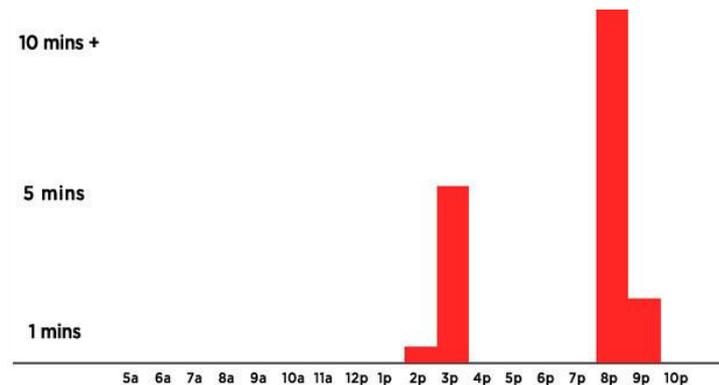
Immovable Object #4:  
The current state of politics  
creates substantial barriers to action

## April 14 v. April 24: A case study in media bias

**FOX  
NEWS**

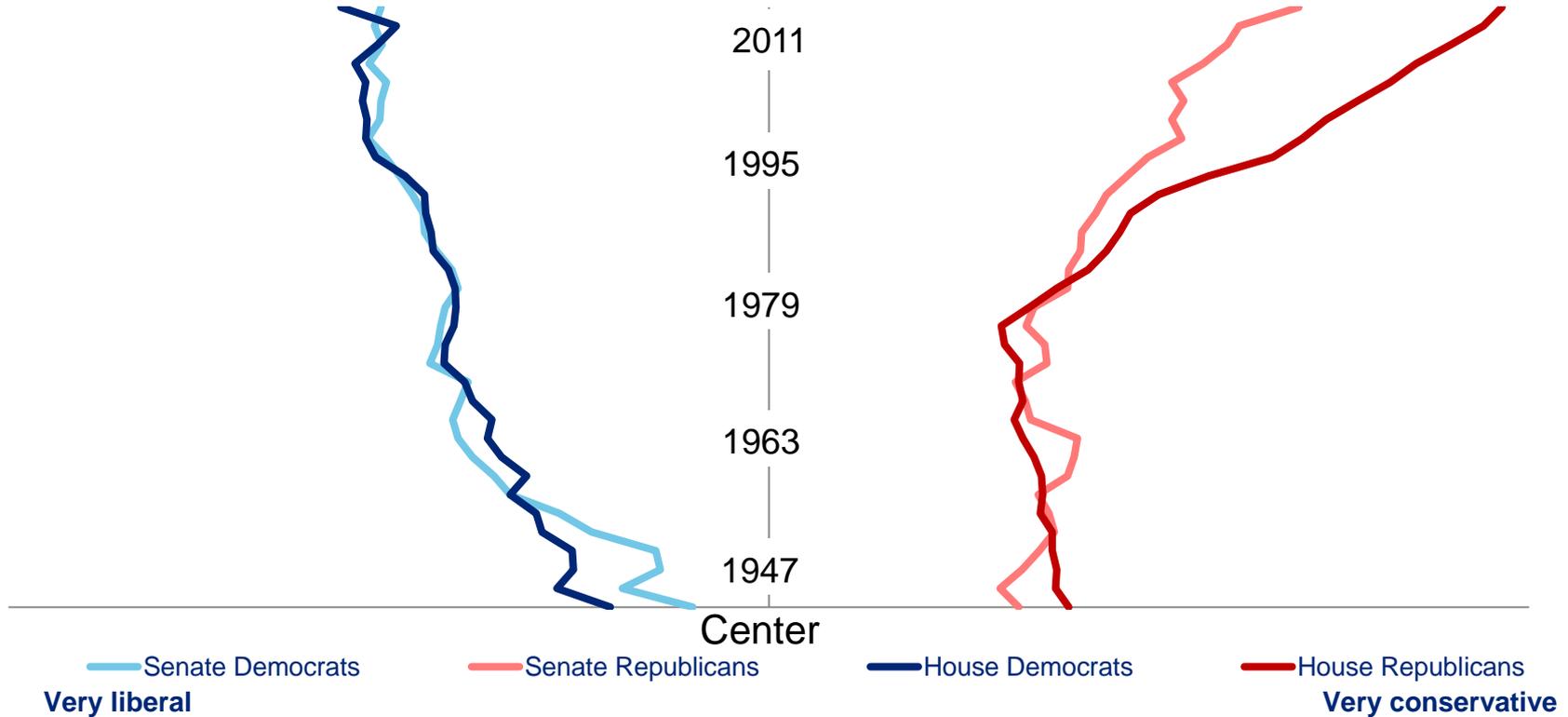


**MSNBC**



Source: <http://www.buzzfeed.com/dorsey/fox-news-gave-cliven-bundys-racist-remarks-embarrassingly-li>

# Measuring the increasing ideological divide in Congress

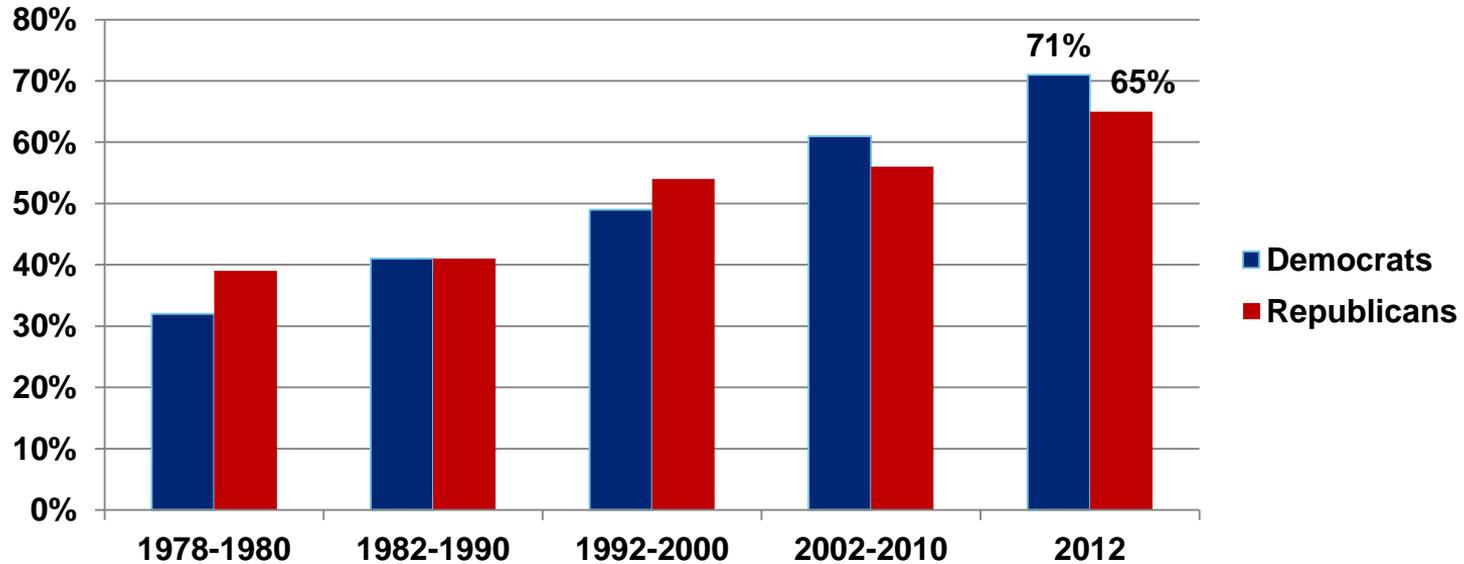


Note: 93 percent of Republican House members represent districts carried by Republican Mitt Romney in 2012 and 96 percent of Democratic House members represent districts won by President Obama. In 1993, there were 99 crossover seats, there are 26 crossover seats today. ("A Keep-the-Bums-In Mood May Prevail in Midterm Election, *Los Angeles Times*, Jan. 1, 2014)

Source: Norman J. Ornstein, Thomas E. Mann, Michael J. Malbin, and Andrew Rugg, *Vital Statistics on Congress*, Tables 8-9 & 8-10, available at [www.brookings.edu/vitalstats](http://www.brookings.edu/vitalstats)

# Whether cause or effect, the public is highly polarized

*Percentage of Democrats and Republicans with a positive view of their own party and a negative view of the other party*



# Geographic representation of where each political party is strongest

## House Election Results

NOV. 9, 2014, 6:19 AM

**184** Democrat

7  
Undecided

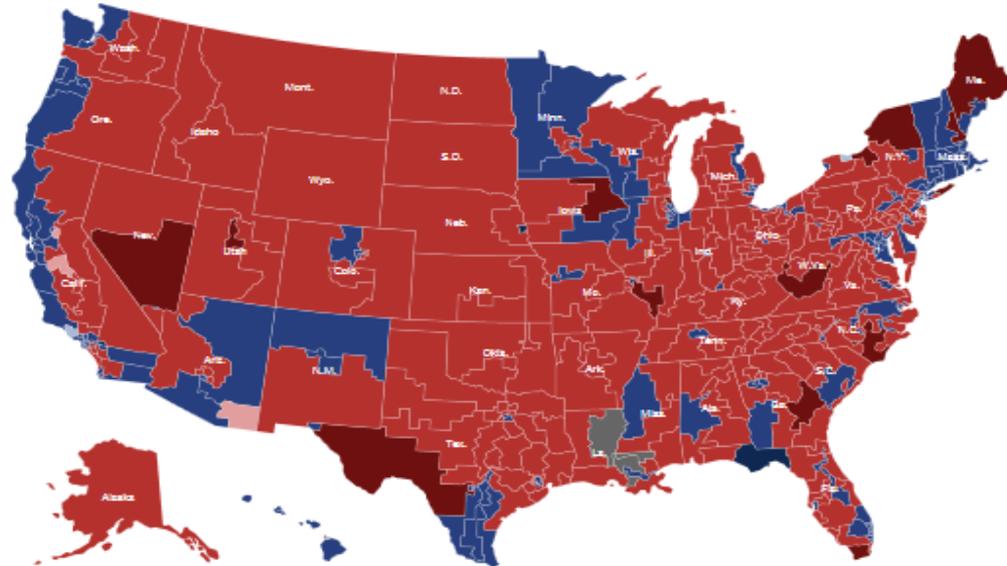
Republican **244**

-12 seats  
Need +17 for control

218

+12 seats

LEAD WIN GAIN  
Dem.  
Rep.  
Other  
No results  
No election  
Runoff/tie



Source: "House Election Results," *The New York Times*, Nov. 5, 2014. Available at <http://elections.nytimes.com/2014/results/house?action=click&pgtype=Homepage&module=span-abc-region&region=span-abc-region&WT.nav=span-abc-region>.

Final thoughts and takeaways

## Five lessons from the 2013–2014 push for tax reform

1. Self-imposed restraints (such as 25% rates, distributional fairness, revenue neutrality) can constrain choices in undesirable ways
2. Preparation of a bill with little visible input from the outside reduces leaks but also reduces public (and member) buy-in of the finished product
3. Leaders in both Congress and the White House need to be part of the process
4. The challenge of tax reform gets even steeper if it doesn't fit with either political party's campaign narratives
5. Congressional members' stated desire to "make the tough choices" often exceeds their willingness to actually do so, especially if the final outcome is uncertain.

## Three takeaways on tax policy

- 1. Tax reform effort in hibernation for the year:** No further action is expected on comprehensive tax reform in 2014
- 2. Ignoring tax reform could be a mistake:**
  - Tax reform is likely to be on the agenda until it is actually enacted; work being done now is likely to form the basis of future reform efforts
  - If Congress does not enact comprehensive reform, focus may turn back to “loophole closers” not tied to rate reduction
  - The OECD BEPS project introduces additional risk into the tax policy environment
- 3. Extenders are likely to be retroactively re-enacted, but action may not occur until much closer to the end of the year**