Two big trends impacting world growth: falling price of oil and rising value of the dollar

How one views these developments depends on where you are operating
Falling oil prices has many winners and losers

Crude Oil Prices (WTI)

Source: Energy Information Agency and Federal Reserve Board
But it is not just a supply story

US Energy Overview

(Quadrillion Btu)

Overview, 1949–2013

Consumption

Production

Imports

Exports

Source: US Department of Energy, Energy Information Agency
The rising value of the dollar is a definite challenge to US exports, but helps US trading partners.
What is going on with the US recovery?

Source: Bureau of Economic Analysis
The fundamentals are improving…mostly
But improvement has been very uneven

Change in real per capita GDP
2013 – 2014

Source: BEA | U.S. = 1.3%

-1.55 to 0.02
0.03 to 0.61
0.62 to 1.25
1.26 to 1.73
1.74 to 5.35
National trends mask high variability

Compound annual growth in real per capita GDP
2007 – 2014

Source: BEA | U.S. = 0.1%

- 0.55 to 5.71
- 0.26 to 0.54
- -0.13 to 0.25
- -0.39 to -0.14
- -2.98 to -0.40
Most indicators show improvement

Individuals are doing better...on average

Household Net Worth

Real Disposable Income per Capita

Unemployment Rate
Most indicators show improvement

Businesses are doing better

Corporate Profits

Business Investment

Manufacturing Production
Most indicators show improvement…but structures are a special case

Relative Growth Rates of Business Investment Components

Index 2000 = 100

Source: Bureau of Economic Analysis
Most indicators show improvements

Financial sector shows improvement

Source: Federal Deposit Insurance Corporation
But we still have ground to make up

Housing is improving, but still has a long way to go
So how are the sectors doing? Employment losing sectors (in addition to construction) include...

- Information
- Financial Services
- Manufacturing
- Government

Source: Bureau of Labor Statistics
So how are the sectors doing? Winning sectors include...

- Leisure and Hospitality
- Professional and Business Services
- Health Services
- Mining

Source: Bureau of Labor Statistics
The number of unemployed to job openings is back to pre-recession levels

Hiring is lagging compared to job openings

Thousands

With so many on the sidelines, wages not likely to cause inflationary pressures

Source: Bureau of Labor Statistics
One factor that might impact future US growth are the Millennials…those born between 1980 – 1995 who are now 19 to 34
### Percent In Billions

<table>
<thead>
<tr>
<th></th>
<th>07:Q4</th>
<th>14: Q3</th>
<th>07:Q4</th>
<th>14:Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>73.6%</td>
<td>69.4%</td>
<td>9,101</td>
<td>8,131</td>
</tr>
<tr>
<td>HE Revolving</td>
<td>5.2%</td>
<td>4.4%</td>
<td>647</td>
<td>512</td>
</tr>
<tr>
<td>Auto Loan</td>
<td>6.6%</td>
<td>8.0%</td>
<td>815</td>
<td>934</td>
</tr>
<tr>
<td>Credit Card</td>
<td>6.8%</td>
<td>5.8%</td>
<td>839</td>
<td>680</td>
</tr>
<tr>
<td>Student Loan</td>
<td>4.4%</td>
<td>9.6%</td>
<td>548</td>
<td>1,126</td>
</tr>
<tr>
<td>Other</td>
<td>3.4%</td>
<td>2.8%</td>
<td>422</td>
<td>327</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>12,372</td>
<td>11,710</td>
</tr>
</tbody>
</table>

Source: FRBNY Consumer Credit Panel/Equifax
Millennial generation
Starting out with debt…and more bad debt

Percent of Balance 90+ Days Delinquent by Loan Type

Source: Federal Reserve Bank of NY Consumer Credit Panel/Equifax
Something has definitely changed

Source: Bureau of Labor Statistics and Bureau of the Census
The overhang could make the future more problematic

Source: Federal Reserve Board, Survey of Consumer Finances, 2013
Prospects for growth in the rest of the world also face a wide variety of challenges
As slow as it has been, US recovery has been relatively strong
Although the other NAFTA partners have been growing faster
Eurozone fundamentals are improving
The risk of deflation is now less
Issues remain for the Eurozone

Source: Eurostat
Issues remain for the Eurozone

Source: Eurostat
Will Japan’s latest plan work? Maybe

Mr. Abe’s economic stimulus plan’s three policy pillars:

- monetary easing
- fiscal expansion
- structural reforms

Source: Haver Analytics
Japan faces serious structural issues

Retiree Dependency Ratio
Population 65 and above as a percent of 100 Population 15-64

Source: US Census Bureau
How will China adjust?

Change in China's Real GDP
Year over Year

Percent


Source: China NBS
India: Stronger than we thought

Old versus New GDP Estimates

<table>
<thead>
<tr>
<th></th>
<th>FY 2013–14</th>
<th>FY 2014–15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>7.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Q2</td>
<td>7.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Q3</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Q4</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Legend:
- Purple: New estimates
- Green: Old estimates
Brazil: Into the Storm

Brazil: GDP growth

% year

Source: Oxford Economics

2000-12 average
Questions?
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Tax Policy in 2015

Looking for Signals Amid the Noise

Jonathan Traub
Deloitte Tax LLP
June 18, 2015

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Setting the stage
Problem not solved: Near-term deficits manageable, but set to climb again after 2018

Note*: Assumes current law remains unchanged (e.g., tax extenders are allowed to lapse, Medicare physician reimbursements are allowed to be cut by nearly one-third, sequester cuts are allowed to transpire as scheduled, etc.)

And then things really take a turn for the worse....

Source: Congressional Budget Office, *The 2014 Long-Term Budget Outlook* (July 2014); the Alternative Fiscal Scenario assumes, among other things, that the “tax extenders” are extended without offset, revenues are held constant at 18% of GDP after 2024, and discretionary spending returns to its two-decade average as a share of GDP after 2024.
Tax reform: Irresistible forces vs. immovable objects
What two factors do CEOs say are holding back the pace of domestic investment?

[Bar chart showing the factors with their respective percentages: U.S. Tax Policy 63%, Regulatory issues 46%, Weak global demand/Economy 38%, Other 9%, Could not be substantially stronger* 3%, Cost of capital/Financing 2%]

Note:*Full response: Do not believe U.S. domestic investment spending could be substantially stronger than it currently is.
The irresistible forces
Corporate income tax rates taxes around the world

<table>
<thead>
<tr>
<th>Nineteen Highest Corporate Tax Rates</th>
<th>Top Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arab Emirates</td>
<td>55</td>
</tr>
<tr>
<td>Chad</td>
<td>40</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td><strong>39.1</strong></td>
</tr>
<tr>
<td>Cameroon</td>
<td>38.5</td>
</tr>
<tr>
<td>Japan</td>
<td>37</td>
</tr>
<tr>
<td>Angola</td>
<td>35</td>
</tr>
<tr>
<td>Zambia</td>
<td>35</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>35</td>
</tr>
<tr>
<td>Malta</td>
<td>35</td>
</tr>
<tr>
<td>Argentina</td>
<td>35</td>
</tr>
<tr>
<td>Congo, Democratic Republic of the</td>
<td>35</td>
</tr>
<tr>
<td>Yemen</td>
<td>35</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>35</td>
</tr>
<tr>
<td>Guyana</td>
<td>35</td>
</tr>
<tr>
<td>France</td>
<td>34.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>34</td>
</tr>
<tr>
<td>Venezuela</td>
<td>34</td>
</tr>
<tr>
<td>Pakistan</td>
<td>34</td>
</tr>
<tr>
<td>India</td>
<td>34</td>
</tr>
<tr>
<td>OECD Average</td>
<td>28.5</td>
</tr>
</tbody>
</table>

## Countries with largest gap between statutory and effective tax rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Statutory Corporate Rate</th>
<th>Effective Rate</th>
<th>“Tax Code Inefficiency”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>33.99%</td>
<td>7.14%</td>
<td>26.85%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>20%</td>
<td>3.65%</td>
<td>16.35%</td>
</tr>
<tr>
<td>Belgium</td>
<td>33.99%</td>
<td>19.12%</td>
<td>14.87%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>30%</td>
<td>16.76%</td>
<td>13.24%</td>
</tr>
<tr>
<td>Panama</td>
<td>25%</td>
<td>12.21%</td>
<td>12.79%</td>
</tr>
<tr>
<td>United States</td>
<td>40%</td>
<td>28.09%</td>
<td>11.91%</td>
</tr>
<tr>
<td>Philippines</td>
<td>30%</td>
<td>19.35%</td>
<td>10.65%</td>
</tr>
<tr>
<td>Zambia</td>
<td>35%</td>
<td>24.69%</td>
<td>10.31%</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>30%</td>
<td>20.54%</td>
<td>9.46%</td>
</tr>
<tr>
<td>Estonia</td>
<td>21%</td>
<td>12.58%</td>
<td>8.42%</td>
</tr>
<tr>
<td>India</td>
<td>33.99%</td>
<td>26.41%</td>
<td>7.58%</td>
</tr>
</tbody>
</table>

Selected OECD countries ranked by tax competitiveness

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>6</td>
</tr>
<tr>
<td>Ireland</td>
<td>15</td>
</tr>
<tr>
<td>Germany</td>
<td>20</td>
</tr>
<tr>
<td>U.K.</td>
<td>21</td>
</tr>
<tr>
<td>Canada</td>
<td>24</td>
</tr>
<tr>
<td>Japan</td>
<td>25</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>32</td>
</tr>
<tr>
<td>France</td>
<td>34</td>
</tr>
</tbody>
</table>

The Path to 32nd: How the U.S. ranked on individual metrics

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Tax</td>
<td>33</td>
</tr>
<tr>
<td>Individual Taxes</td>
<td>30</td>
</tr>
<tr>
<td><strong>International Tax Rules</strong></td>
<td><strong>34</strong></td>
</tr>
<tr>
<td>Property Taxes</td>
<td>31</td>
</tr>
<tr>
<td>Consumption Taxes</td>
<td>4</td>
</tr>
</tbody>
</table>

Note: “The Tax Foundation’s International Tax Competitiveness Index (ITCI) measures the degree to which the 34 OECD countries’ tax systems promote competitiveness through low tax burdens on business investment and neutrality through a well-structured tax code.”

Source: Tax Foundation, “International Tax Competitiveness Index,” Table 1, September 2015
The immovable objects
Immovable object #1: Congress facing multiple deadlines; do recent actions create reason for optimism?

- Extenders are already expired
- Highway trust fund exhaustion on the horizon (again)
- Debt limit suspension ended March 15, 2015, but Treasury can use extraordinary measures to extend the “X-Date” for several months
- The upcoming Supreme Court decision in King v. Burwell (tax credit subsidy case) could create substantial pressure on Congress to address ACA issues
- 2016 Presidential campaign is already underway

Question: what should we read into recent accomplishments in Congress, including a permanent fix of the Medicare physician payment system and passage of budget blueprints in both the House and Senate?
## Immovable object #2: Which Tax Plan Do You Prefer?

<table>
<thead>
<tr>
<th>Plan</th>
<th>Top Rate</th>
<th>Key Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan A</td>
<td>45%</td>
<td>First $14 trillion of individual's income exempt from tax</td>
</tr>
<tr>
<td>Plan B</td>
<td>32%</td>
<td>Applies to first dollar of income; no deductions, credits, exclusions, or exemptions; 32% rate also applies to all income, including capital gains, dividends, and currently tax-exempt interest</td>
</tr>
</tbody>
</table>
Immovable object #3: Tax reform means tough choices on the individual side

- New limits on deductions for charitable contributions and mortgage interest (Camp)
- Immediate and full repeal of most other itemized deductions, including for state & local taxes (Camp)
- 10% surtax applied to a broad base of income (but with exception for manufacturing income) (Camp)
- Dollar-for-dollar phase-out of exclusion of capital gains on sale of principal residence when joint filer’s MAGI exceeds $500K (Camp)
- Top individual tax rate of 35%, but applied to married couples with taxable incomes over $140,000 (Wyden)
Immovable object #4: Tax reform means tough choices on the business side, too

- Slower cost recovery (Baucus, Camp, Wyden)
- Amortize some or all of R&E and advertising expenditures (Baucus, Camp)
- Phase-out Section 199 manufacturing deduction (Camp, Wyden)
- Prevent the further migration of C Corps into REITs and PTPs (would also affect some existing entities) (Camp)
- Repeal deferral (Wyden)
- Restrict employee compensation deduction to first $1M (no performance-based exception) (Camp)
- Limit value of corporate interest deduction (Wyden)
- Tax carried interest as ordinary income (Camp)
Immovable object #5: Still can’t decide whether tax revenues are high enough or need to rise further

Note: The updated May baseline for current law basically mirrors the House GOP budget but for some minor technical adjustments.

Source: House Budget Committee, Path to Prosperity (FY14)—Summary Tables (Mar. 2013); Senate Budget Committee, Foundation for Growth (FY14)—Summary Tables (Mar. 2013)
What is the “right” revenue number?

% of GDP

$730 billion*

Note*: Outlays are not included, but total approximately $90B for the modification of the AOTC and child tax credit.

### Why the baseline matters:
**Twelve revenue offsets from H.R. 1**

<table>
<thead>
<tr>
<th>Offset Description</th>
<th>Amount</th>
<th>Offset Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortize R&amp;E costs:</td>
<td>$193b</td>
<td>SIFI tax:</td>
<td>$86b</td>
</tr>
<tr>
<td>Amortize advertising costs:</td>
<td>$167b</td>
<td>New limits on deductibility of executive comp:</td>
<td>$12b</td>
</tr>
<tr>
<td>Phased-out repeal of Sec. 199 deduction:</td>
<td>$116b</td>
<td>End tax exclusion of certain fringe benefits:</td>
<td>$39b</td>
</tr>
<tr>
<td>Modify rules for excluding gain on home sale:</td>
<td>$16b</td>
<td>Tax certain carried interest as ordinary income:</td>
<td>$3b</td>
</tr>
<tr>
<td>Repeal percentage depletion:</td>
<td>$5b</td>
<td>Related party reinsurance rule changes:</td>
<td>$9b</td>
</tr>
</tbody>
</table>

**Adjusted 2019:**

- SIFI tax: $86b
- New limits on deductibility of executive comp: $12b
- End tax exclusion of certain fringe benefits: $39b
- Tax certain carried interest as ordinary income: $3b
- Related party reinsurance rule changes: $9b
Immovable object #6: How do we know if Americans are paying a “fair” amount of tax?

Note: Before Tax Income is the sum of market income and government transfers.

Note: The breaks are (in 2011$) for a one person household are: $0(1st), $24,000(2nd), $36,200(3rd), $51,900(4th), $77,800(5th), $319,900(Top 1%); For a four-person household, the breaks are: $0(1st), $48,100(2nd), $72,400(3rd), $103,800(4th), $155,500(5th) and $639,800(Top 1%)

Potential policy release valves?

Segmented Tax Reform?

• “Business only” or “International only” comes with their own policy and political concerns

Tax Reform via Budget Reconciliation?


• Legislation moved under reconciliation may pass with 51 votes, but substantial procedural hurdles remain

• Not veto proof - would the GOP want to force through tax reform that gets less than 60 votes and is then vetoed by the President?
Immovable object #7:
The current state of politics creates substantial barriers to action
Percentage of Americans who think Hillary Clinton’s decision to maintain a private email account while Secretary of State is a “very serious problem”

Source: Huffington Post / YouGov poll
Growing number of Americans don’t want their children to marry someone from the other political party

1960: Percentage of parents who would be “displeased”

- Republicans: 4%
- Democrats: 5%

2010: Percentage of parents who would be “upset”

- Republicans: 33%
- Democrats: 49%

Measuring the increasing ideological divide in Congress

Note: 93% of Republican House members represent districts carried by Republican Mitt Romney in 2012 and 96% of Democrat 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)

Turnout among primary voters has fallen to record lows…

*Primary Voters in Midterm Elections (as a Percentage of Eligible Population) Since 1982*

Sources: Deloitte analyses of data from the Center for the Study of the American Electorate and the Bipartisan Policy Center
While primary voters are more partisan than the general electorate.

Source: Pew Research Center, *Political Polarization in Action: Insights into the 2014 Election from the American Trends Panel*
Presidential leadership could help. But …

Six final thoughts and takeaways
Final thoughts and takeaways

1. Extenders debate is the “Groundhog Day” of tax policy
2. Key players are gearing up to take another run at tax reform in 2015; funding shortfall for the highway bill could be the needed action-forcing event
3. Presidential leadership is the Catch-22 of tax reform
4. Allowing the broader politics of tax reform to be defined by a single variable – marginal tax rates – makes compromise especially difficult
5. Congress members’ stated desire to “make the tough choices” sometimes exceeds their willingness to actually do so, especially if final outcome is uncertain
6. Even with the timing of passage of tax reform uncertain at best, it would be a mistake to ignore it now:
   • Tax reform remains inevitable; work being done now (along with what Camp et al worked on last year) likely will form the basis of what is eventually enacted
   • The OECD BEPS project introduces additional risk into the tax policy environment
Jonathan Traub joined the Washington National Tax practice of Deloitte Tax LLP in June 2012 as managing principal of its Tax Policy Group. Jon leads a team that identifies, evaluates and monitors legislative proposals, and interprets the practical issues surrounding the application of tax proposals on behalf of Deloitte’s clients. Jon assists Deloitte’s clients in their efforts to stay aware of the numerous and often complicated debates in tax policy.

With considerable career experience in the legislative arena, especially in tax policy, Jon is able to provide clients with critical insights on the most complicated issues impacting their businesses and offer recommendations and guidance. His immense experience on Capitol Hill has provided him the valuable ability to anticipate legislation and the various impacts associated with new or revamped policies, which will in turn prove essential to the success of clients’ businesses.

Jon was previously the staff director for the Committee on Ways and Means of the U.S. House of Representatives, his most recent senior staff position in the U.S. House of Representatives. During his tenure as Staff Director for the Committee on Ways and Means, Jon was responsible for developing legislative policies and strategy on issues in the Committee’s jurisdiction, including taxes, healthcare and trade.

He also played a key role in the Tax Relief Act of 2010 and the Budget Control Act (debt limit increase, 2011). He was also deeply involved in the work of the Joint Select Committee on Deficit Reduction, better known as the Super Committee.

Jon received his bachelor’s degree from Haverford College and juris doctor from the University of Virginia.

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