Executives believe that business tax rates will rise in order to pay for COVID-19 relief, regardless of which party controls Congress

Among US executives, a conviction has taken hold that corporate tax rates will rise as a result of pandemic relief spending. Over three-quarters (76%) of executives believe that business tax rates will rise in order to pay for COVID-19 relief, regardless of which party controls Congress, up from 70% who felt the same in September. Tax directors agree: 70% expect an increase in corporate rates. These views likely reflect concerns that eventually there will be a price to pay for the more than $2 trillion in federal spending for COVID relief that has already been enacted.

While federal deficits have grown dramatically in 2020 due to COVID-related spending, federal debt management costs have been held largely in check by historically low interest rates. More importantly, increasing tax rates may not be top of mind for policymakers at a time when further economic stimulus still may be needed.

Tax leaders see business tax rates going up

<table>
<thead>
<tr>
<th>Disagree</th>
<th>Neither/nor</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>17%</td>
<td>6%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Q: Indicate the degree to which you agree or disagree: Business tax rates will rise in order to pay for COVID-19 relief, regardless of which party controls Congress.
Totals may not add up to 100% due to rounding.
Source: PwC US Pulse Survey
October 6, 2020: base of 537, Tax leader base of 139
Ultimately, the outlook for tax increases will depend on the outcome of the 2020 elections, and reducing the federal deficit has not been a priority for either presidential candidate during their campaigns. Under a scenario where Democrats control the White House and both chambers of Congress, the outlook for tax increases will depend on which proposals can gain the support of a majority of current and newly elected Democratic members of the House and Senate. For example, some Democrats in Congress might not support increasing the US corporate tax rate to the 28% rate sought by former Vice President Biden. If Republicans retain control of the Senate, the resulting divided government is likely to nearly eliminate the prospect for new tax increases.

Top policy risks for US business

<table>
<thead>
<tr>
<th>Rank</th>
<th>With a second Trump administration</th>
<th>With a Biden administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>US corporate tax policy 39%</td>
<td>US corporate tax policy 62%</td>
</tr>
<tr>
<td>2</td>
<td>COVID-19 pandemic response 35%</td>
<td>COVID-19 pandemic response 35%</td>
</tr>
<tr>
<td>3</td>
<td>US-China business relations 32%</td>
<td>Healthcare reform 33%</td>
</tr>
<tr>
<td>4</td>
<td>Tech and data regulation 26%</td>
<td>Tech and data regulation 27%</td>
</tr>
<tr>
<td>5</td>
<td>New trade agreements 23%</td>
<td>US-China business relations 23%</td>
</tr>
<tr>
<td>5</td>
<td>US immigration policy 23%</td>
<td>Non-US tax rules 20%</td>
</tr>
<tr>
<td>7</td>
<td>US foreign policy 22%</td>
<td>New trade agreements 19%</td>
</tr>
<tr>
<td>8</td>
<td>Healthcare reform 20%</td>
<td>Sustainability &amp; energy transformation 18%</td>
</tr>
<tr>
<td>9</td>
<td>Non-US tax rules 17%</td>
<td>US foreign policy 14%</td>
</tr>
<tr>
<td>9</td>
<td>Sustainability &amp; energy transformation 17%</td>
<td>US immigration policy 14%</td>
</tr>
</tbody>
</table>

Q: Under a Trump/Biden administration, changes to which of the following policy areas would potentially introduce new risks for your company? (Select up to three.)
Source: PwC US Pulse Survey
October 6, 2020: base of 537

Top findings

Nearly 140 tax leaders from Fortune 1000 and private companies, along with other C-suite executives, weighed in on policy-related issues in our latest PwC US Pulse Survey, fielded September 30, 2020 to October 6, 2020. Find these insights in our Road to Election 2020 report. In the ongoing survey, tax leaders also shared their perspectives on other top-of-mind issues, including international tax policy and global tax transparency.
Businesses see increasing risks from tax policy uncertainty in the US and overseas

US and global tax rules constantly change, but the scope and pace of the global changes currently under consideration or already underway are unprecedented. Just over half of tax leaders (52%) agree that growing tax policy and administration uncertainty in many foreign jurisdictions poses a greater challenge to US business than potential US tax policy changes.

Uncertainty over global tax policy stems in large part from a global campaign to rewrite international tax rules by the G20 and OECD in order to develop a long-term consensus solution to tax challenges arising from the digital economy. At the same time, individual jurisdictions are resorting to unilateral tax measures that work against the OECD process. Add to this debate the pandemic and the increased budget costs to governments, and it’s easy to envision more aggressive audit and enforcement postures by domestic, local and global taxing authorities.

Uncertainty over US tax policy may be related more to the high degree of political polarization evident in recent years in the United States with respect to tax policy and many other areas of public policy.

While the global tax policy uncertainty challenges may seem higher because of specific actions being taken in Europe and other jurisdictions, the actual tax impact to a company will also depend on how the US responds with potential changes to US international tax rules. US policymakers have signaled that a range of options are under consideration, including denying US foreign tax credits for the payment of certain types of foreign taxes. The US also has threatened to impose tariffs on goods and services from countries that implement unilateral policies seen as targeting US technology companies.

A key challenge for business leaders will be guiding policymakers toward reasoned, pro-growth decisions that provide mechanisms to avoid double taxation and resolve intergovernmental disputes expeditiously. Taken together, these global tax policy developments have generated a “perfect storm” of uncertainty at the very same time that businesses are seeking to reassess their future plans and business models. As a result, tax leaders will need to communicate these global risks to the C-suite, develop a plan to engage with key stakeholders and take proactive steps to manage the risks.

PwC US Pulse Survey: Tax leader insights  
October 13, 2020 | 3
Surtax on the foreign income of US companies will make US companies less competitive globally

Most tax leaders (82%) agree that a surtax on their company’s foreign profits would make them less competitive globally. While US businesses have sought to expand their businesses by entering foreign markets, policymakers have taken differing approaches to taxing the foreign profits of US multinational companies. Some proposals that seek to impose additional taxes on foreign earnings face the challenge of putting US companies at a disadvantage relative to their foreign competitors, which are not subject to US tax on their foreign earnings and also are generally not subject to tax in their home countries on their foreign earnings.

Business leaders will need to weigh in on how proposed changes to the taxation of foreign income may affect their businesses. Understanding and quantifying the potential impact of such proposals on US economic growth and job creation could help the business community steer policymakers toward solutions that achieve the goal of tax fairness, while allowing US companies to remain competitive globally.

A surtax on foreign profits would hurt US competitiveness

Q: Indicate the degree to which you agree or disagree: A surtax on the foreign income of US companies will make US companies less competitive globally.

Totals may not add up to 100% due to rounding.
Source: PwC US Pulse Survey
October 6, 2020. Tax leaders base of 139
**A growing US market is the greatest incentive for re-shoring**

The pandemic has highlighted business concerns related to supply chain and manufacturing disruption and also has renewed interest in proposals to encourage domestic manufacturing. Over two-thirds of tax leaders (68%) say rising demand for their product is the biggest factor in the decision to expand domestic production, while 32% say that tax provisions would have the greatest impact.

---

**Growing demand makes stronger case for onshoring jobs and operations**

Businesses evaluating potential changes to their supply chains may be considering increasing US domestic production, and tax will be one of the many factors that must be considered.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Most likely</th>
<th>2nd-most likely</th>
<th>3rd-most likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased US domestic demand for my company’s goods/services</td>
<td>68%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Tax incentives for increased domestic production and hiring</td>
<td>23%</td>
<td>57%</td>
<td>19%</td>
</tr>
<tr>
<td>Tax penalties or surtaxes on foreign operations</td>
<td>9%</td>
<td>23%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Q: Rank the following on how likely they would lead your company to increase jobs or expand operations in the United States. Totals may not add up to 100% due to rounding. Source: PwC US Pulse Survey. October 6, 2020. Tax leaders base of 139
Views on global tax transparency movements

With governments facing increased fiscal demands related to the global pandemic, an overwhelming majority (86%) of tax leaders expect an increase in demand for global tax transparency in the next few years, which could lead to greater reputational risk and increased tax controversy for businesses.

Companies will need to increase the focus on risks and threats arising from demands for greater transparency of detailed tax data that may disclose proprietary business information to competitors. Furthermore, greater tax transparency is likely to increase tax disputes. The pandemic and its aftermath are likely to increase governments’ need for revenue at a time when many governments have expressed dissatisfaction with the current allocation of global profits.

Unfortunately, the dispute resolution mechanisms needed to iron out conflicting governmental claims to global profits and provide business certainty are yet to be developed and agreed upon. Global businesses will look to manage risk through policies, procedures and controls around how they determine tax positions and work with tax authorities beginning with how they disclose and manage the information required to be disclosed. Transparency will necessitate a coordinated approach to tax audits and dispute resolution.

In light of the increased push for greater tax transparency, it is imperative for companies to assess the risks, communicate them to the appropriate stakeholders, including the board and management, and devise a plan to manage the risks.

Calls for more tax transparency could lead to reputational risk and tax controversy

Q: Indicate the degree to which you agree or disagree: There will be an increase in demand for global tax transparency in the next few years, leading to greater reputational risk and tax controversy for my global operations.

Totals may not add up to 100% due to rounding.
Source: PwC US Pulse Survey
October 6, 2020: Tax leaders base of 139
CFOs and tax directors agree on where the tax function adds value

The economic effects of the pandemic have made liquidity a key concern for many businesses. It’s no surprise that CFOs and tax leaders alike agree that generating cash savings is the highest driver of organizational value for the tax department (37%). The tax function plays a critical role as companies focus on their cash strategy in a downturn economy. Some examples of how tax leaders can manage their cash taxes include accelerating deductions, obtaining refunds, and reducing or deferring required tax payments where permissible. Tax leaders also can work with their company’s treasury function to align cash repatriation strategies as well as with the finance function to align financing options to achieve liquidity for the company. The focus on liquidity also highlights the degree to which businesses see a continued need for additional fiscal assistance to bolster US economic growth and consumer demand.

Tax departments bring value in other ways, as well. Both CFOs and tax leaders say increasing earnings is the second highest value-driver for the business, followed by managing risk, and lowering the tax function operating costs. Overall, tax departments are being called on to do and contribute more to the overall strength of their businesses.

CFOs and tax leaders agree on ranking the value tax departments bring

1. Generating cash savings
2. Increasing earnings
3. Managing risk
4. Lowering operating costs

Q: Rank the following ways that tax drives enterprise value in your organization. Totals may not add up to 100% due to rounding.
Source: PwC US Pulse Survey
October 6, 2020: base of 315; Tax leader base of 139; CFO base of 176

PwC US Pulse Survey: Tax leader insights October 13, 2020 | 7
Latest findings: Road to election 2020

No matter who occupies the White House next, business leaders must anticipate what policy and regulatory shifts will mean. The election focuses on big issues, such as economic stability, the role of government programs in driving economic recovery, and responsibility of business in creating domestic jobs and championing diversity and inclusion. See what’s top of mind and keep up with perspectives on how your company can be more agile and responsive to whatever comes next.

Learn more

Past surveys

To view data and insights from previous PwC US Pulse Surveys, please see below.

September 15, 2020