Election results will affect tax and investment plans

Business leaders plan to take action next year in a variety of ways in response to President-elect Joe Biden’s campaign tax proposals. Nearly 90% of business leaders are very or somewhat likely to perform modeling to quantify the impact of the tax proposals, while 87% are likely to undertake tax planning. In addition, 78% of business leaders say they are likely to engage elected officials on raising awareness of the impact of these tax proposals on businesses. And most significantly, the Biden tax proposals could impact business investment, with 71% of business leaders likely to reconsider their current investment plans.

The ability of a Biden administration to enact significant tax legislation will likely depend on control of the Senate, which will be determined by the January 5 runoff elections for the two Georgia Senate seats. A Republican-controlled Senate would largely eliminate the prospect of significant tax increases until at least after the 2022 midterm elections. If Democrats gain Senate control by winning both Georgia runoffs, the outlook for action on Biden’s tax plans would still be uncertain because of the challenges of operating in an evenly divided Senate.

Tax modeling and planning will be particularly important as the Senate outcomes are determined because the election outcomes will affect whether tax increase legislation is likely to be enacted. If Democrats gain control of the Senate, businesses will need to weigh the potential impact of Biden’s tax proposals on their after-tax return on investment, and the survey responses indicate that business leaders may reconsider both the amount and location of their investments.

Where businesses will focus tax efforts with a Biden administration

<table>
<thead>
<tr>
<th>Effort</th>
<th>All leaders</th>
<th>Tax leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perform modeling to quantify impact of proposals on my company’s cash flow and earnings per share</td>
<td>89%</td>
<td>92%</td>
</tr>
<tr>
<td>Engage in tax planning in anticipation of legislative changes</td>
<td>87%</td>
<td>85%</td>
</tr>
<tr>
<td>Engage with elected officials to raise awareness of impact of these proposals on business operations</td>
<td>78%</td>
<td>75%</td>
</tr>
<tr>
<td>Reconsider current investment plans</td>
<td>71%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Q: Given what you know about President-elect Joe Biden’s campaign tax proposals, how likely are you to do any of the following in the next 12 months? (Responses to "very likely," "somewhat likely")

Source: PwC US Pulse Survey
November 13, 2020; base of 656; Tax leader base of 118
Business tax relief is needed for economic recovery

The majority of tax leaders (61%) agree that it is important that new federal COVID-19 economic stimulus legislation includes business tax relief provisions. Negotiators have not yet reached agreement on another economic stimulus package, and the timing of potential action remains unclear. Key policy differences between Democrats and Republicans remain, including the overall cost and scope of the relief package.

Much of the focus of the relief proposals has been on assistance to individuals and small businesses, including enhanced unemployment insurance benefits, recovery rebate checks and forgivable Paycheck Protection Program (PPP) loans. But provisions to assist businesses of all sizes also have been proposed, such as extending and expanding the employee retention tax credit, accelerating the use of general business credits, providing a workplace safety tax credit for employee protection expenses, and providing liability protection.

Tax leaders recognize that businesses need additional support in this challenging environment. Ensuring that businesses succeed will be important to the country’s economic recovery and the well-being of the employees of those businesses.
OECD global business income taxation project will have a big impact

For businesses that operate globally, tax leaders agree the OECD global business income taxation project will have a significant impact, but they are divided on the likely outcome of the OECD effort. Within globally engaged companies, 55% of tax leaders believe the OECD project will result in changes to the overall global tax framework that will increase tax complexity for their business, while 45% believe the OECD project will fail to reach consensus and their businesses will be subjected to uncoordinated unilateral tax provisions in multiple foreign jurisdictions.

The OECD has detailed potential options for changing international tax rules under two main pillars: one that would result in reallocation of jurisdiction to tax a business’s global profits without regard to physical presence in a jurisdiction, and a second that would provide global anti-base-erosion rules. Many countries have enacted or proposed “digital services taxes” (DST) aimed primarily at US high-tech companies without waiting for the OECD to achieve consensus. Meanwhile, the European Union has said it will move ahead with its own tax on digital businesses, such as a DST, if no global agreement is reached.

While the business community is divided in its expectations for the OECD project, it’s clear that businesses — and not just tech but the much wider range of sectors that would be affected — expect a changing international tax landscape to unfold over the next year. Global businesses anticipate much work ahead, whether the project succeeds or fails. Businesses should engage with Congress and the administration on the OECD project and prepare for change — either from a more coordinated global effort or from unilateral actions in foreign jurisdictions.

Split opinion as to what the OECD digital tax proposals mean for their businesses

What they think will happen

45%

The OECD* will fail to reach a consensus on its project to address digital taxation

55%

The OECD digital taxation project will make significant changes to the overall global tax framework, as outlined in Pillars 1 and 2

How it might affect their businesses

My business will be subject to uncoordinated unilateral tax policies in multiple foreign jurisdictions (such as destination-based taxes or gross withholding taxes)

These will increase tax complexity for my business

Q: Which one of the following statements do you agree with the most?

*Organisation for Economic Co-operation and Development

Source: PwC US Pulse Survey
November 13, 2020: Tax leader base of 78, which excludes the 40 leaders in our survey who say their businesses are domestic and the proposals will not have a material impact, or they do not know enough about the OECD project to assess its impact.
Past surveys

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

October 13, 2020
September 15, 2020

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