Business implications of 2020 presidential tax proposals

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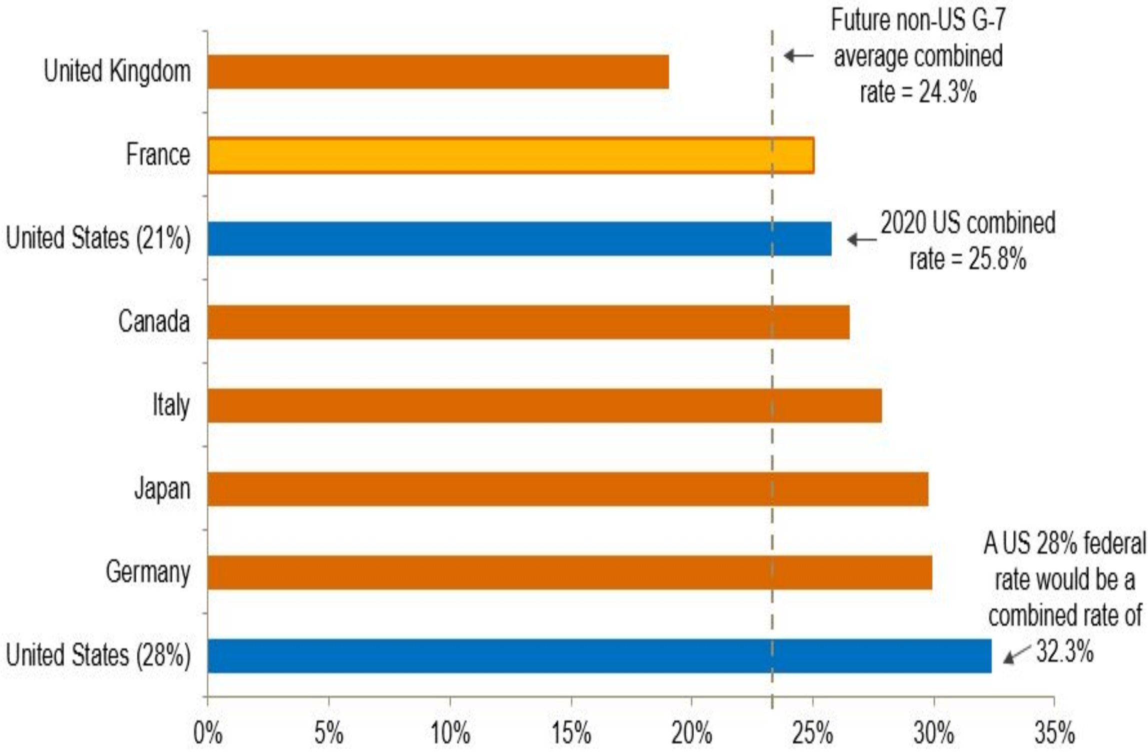
pwc

Interaction of Biden tax proposals will have ETR and cash tax implications for business

- **Higher headline corporate rate ...**
  - 28% rate proposed

- **While deductions are narrowing**
  - 2017 Tax Reform Act (2017 Act) tax base broadeners are set to become more restrictive (and more costly at a 28% rate)
    - Example: Interest deduction limits tighten and capitalization of R&D costs begins in 2022

- **Other key levers**
  - Proposed changes to taxation of international operations will result in higher US tax on foreign earnings
  - 15% minimum tax on global book income functions as a new corporate 'alternative minimum tax'. Consider impact of US GAAP and US tax differences including:
    - Timing effects for depreciation and expensing
    - Permanent adjustments such as tax credits and employee stock compensation



Note: Scheduled France corporate rate reduction to 25% in 2022 (from 32% in 2020) shown in light color.

Current political polling suggests the possibility of a Democratic sweep

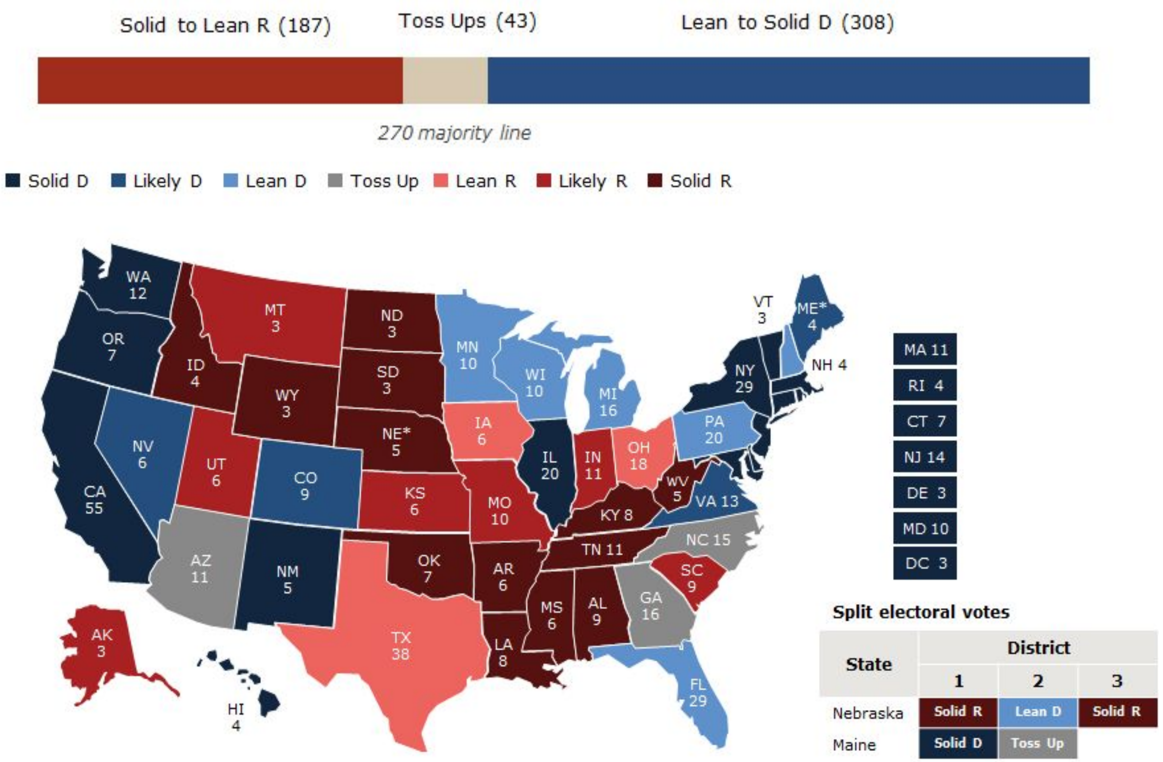
- Former Vice President Biden has maintained a steady lead in national polls and electoral college projections*

- Current projections suggest Democrats will retain control of the House and may take control in the Senate, which increases prospects for Biden’s tax proposals

- Commentators say continued divided government appears likely if President Trump is re-elected, with Democrats holding the House & Republicans the Senate

- Action-forcing events (e.g., temporary 2017 Act policies and OECD/EU cross-border tax projects) could prompt action on tax legislation even under divided government

- Change of White House control may prompt reassessment of regulatory and administrative actions taken by the Trump administration



State	District 1	District 2	District 3
Nebraska	Solid R	Lean D	Solid R
Maine	Solid D	Toss Up	

*Nebraska and Maine award two electors each to the winner of their state's popular vote and one elector to the winner of each of their congressional districts
Sources: Cook Political Report.

* RealClearPolitics, FiveThirtyEight averages of national polls since March 2020

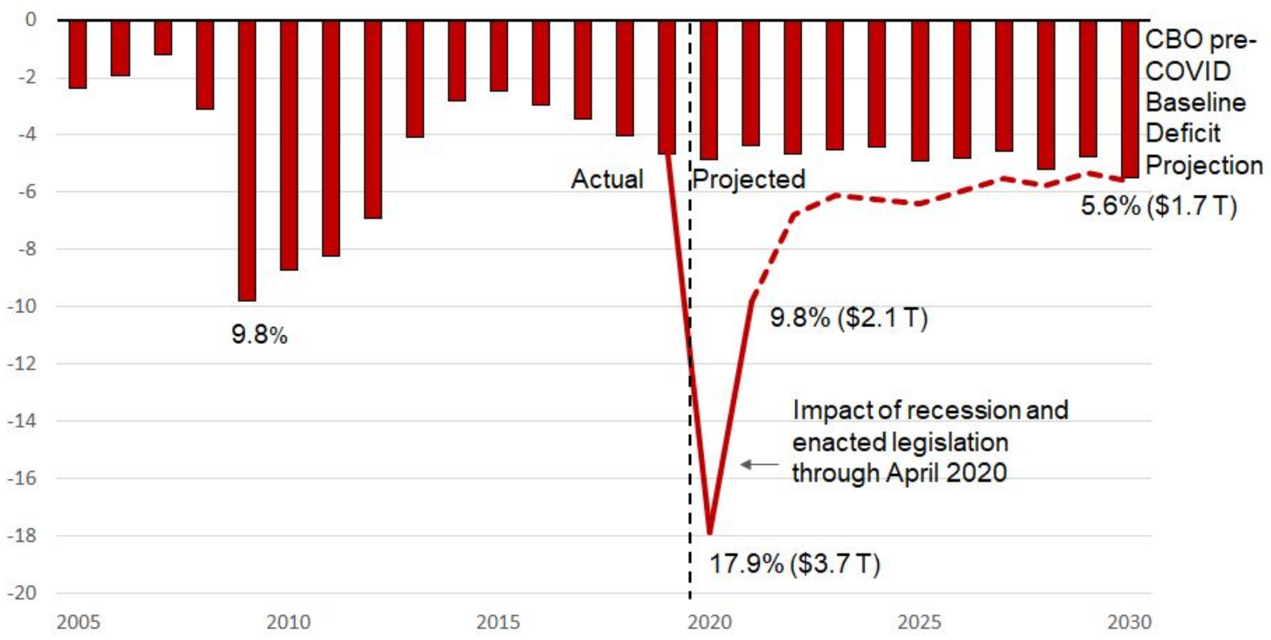
Pandemic recession and costs of relief efforts increase challenges for sustaining current 2017 Act policies

2017 Act income tax base broadeners and sunsets scheduled to go into effect:

- 2022 - Tighter interest deduction limits and R&D capitalization begin
- 2023 - 100% expensing phase-out begins
- 2025 - Final year of individual provisions
- 2026 - Tighter tax rules on taxation of international operations take effect

Estimated budget deficit given enacted legislation and recession relative to CBO pre-COVID baseline

Percentage of Gross Domestic Product



Sources: CBO pre-COVID baseline for 2020-2030; CBO (May 2020) for 2020 and 2021 and Committee for a Responsible Federal Budget (June 2020) estimates for 2022-2030 (recession and enacted legislation).

Financial services sector specific proposals

In addition to business tax proposals that apply generally, Biden has proposed revenue-raising proposals that directly affect certain business sectors. For the financial services sector, Biden would:

- Institute a financial fee on certain liabilities of large financial institutions with over $50 billion in assets.

Other Democratic proposals that could affect the financial services sector:

- Mark-to-market regime to limit capital gains deferral for certain high-income individuals - proposed by Senate Finance Ranking Member Ron Wyden (D-OR)

- Tax investment fund partnership carried interest as ordinary income - proposed by former President Obama and various Democratic members of Congress

Appendix: Key Biden individual tax proposals

- Restore pre-2017 Act tax rates for income above $400,000 (increasing highest rate from 37% to 39.6%)
- Tax capital gains and qualified dividends income at ordinary rates for individuals with incomes above $1 million
- Tax unrealized capital gains in excess of $100,000 at death or gift for individuals with incomes above $400,000
- Limit tax benefit of itemized deductions to 28% and restore limitation on itemized deductions for individuals with income above $400,000
- Apply Social Security payroll tax to income above $400,000