

Tax Reform: A Business Perspective

FTA Revenue Estimating Conference

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October 17, 2016





Overview

- Business Coalitions and Trade Associations – Where they Stand
- Tax Reform Options Under Discussion
- Multistate Tax Policy – COST

“Nothing would have a bigger and more immediate effect on investment and hiring than business tax reform. We all know these numbers, but the U.S. is still the highest OECD country in terms of its tax rates. And these capital markets today are liquid. I mean, capital flows very quickly and very easily to the highest returns. And when the United States taxes profits at a level more than anybody else in the world, we shouldn’t be surprised when those investments are finding those lower-cost alternatives.”

Randall Stephenson, CEO AT&T¹

1. Remarks to Economic Club, July 17, 2014

2Q 2016 AT&T *by the numbers*

 network		 connections		 community	
<p>140 years AT&T has been improving the way people communicate</p> <p>>200 countries where AT&T offers talk, text and data coverage</p> <p>>99% of Americans covered by AT&T</p> <p>>12,500 patents held by AT&T</p> <p>>2.2 million living units with access to the AT&T GigaPowerSM network</p>	<p>1,071,432 route miles of fiber globally</p> <p>\$13.7 billion spent with minority, women, and disabled veteran-owned suppliers in 2015</p> <p>84 markets where AT&T Digital Life[®] is available</p> <p>>\$140 billion invested in our wireless and wireline networks over the past 5 years (2011-2015)¹. During this time, we invested more in the U.S. than any other public company.</p>	<p>15.6 million internet connections in service</p> <p>>45.5 million video connections through DIRECTV & U-verse²</p> <p>Every 7 seconds, someone switches to DIRECTV³</p> <p>>10,000 titles on DIRECTV Play, Latin America's TV Everywhere platform</p> <p>>5000 attendees at 33 AT&T Mobile App Hackathon events in 2015</p>	<p>141.8 million AT&T wireless customers in the U.S. and Mexico</p> <p>380 million people in the U.S. and Mexico who can access AT&T's 4G LTE network</p> <p>Watch up to 8 out-of-market NFL games at once, live in HD, with DIRECTV NFL SUNDAY TICKET</p>	<p>>1 million hours of mentoring provided to students by AT&T employees</p> <p>\$119.1 million realized in annualized energy savings from 15,050 energy projects in 2015</p> <p>\$156.6 million contributed through corporate, employee, social investment and AT&T Foundation programs in 2015.</p> <p>5.9 million gallons of gas avoided in 2015 through the use of 11,257 alternative fuel vehicles</p>	<p>\$317 million invested through AT&T Aspire since 2008 toward a \$350 million commitment to student success</p> <p>~7.3 million cell phones reused or recycled through AT&T in 2015</p> <p>>5.4 million volunteer hours by AT&T employees and retirees in 2015 - worth more than \$124 million</p> <p>>277,000 employees worldwide</p> <p>>10,000 veterans hired, achieving our 2013 commitment</p>

* All AT&T and DIRECTV numbers are based on Q1 2016 results unless otherwise noted.

¹ Includes U.S. and International capital investment and acquisitions of wireless operations and spectrum. ² Includes SKY Mexico. ³ Based on gross subscriber additions from Q3 2015 - Q1 2016.

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Business Coalitions and Trade Associations

Where They Stand





Business Coalitions Focused on Federal Tax Reform



Reforming America's Taxes Equitably – Focused on Rate

To reform the tax code, making it fairer and simpler and improving the prospects of growth and jobs in the U.S. economy by reducing the corporate income tax rate to make it more competitive with our nation's major trading partners. Close tax loopholes and keep American companies in America.

Business Coalitions Focused on Federal Tax Reform



Alliance for Competitive Taxation – Focused on Shift to Territorial

Supports comprehensive tax reform that lowers the corporate tax rate to 25% and establishes a modern globally competitive tax system that aligns the U.S. with the rest of the world.



Let's Invest For Tomorrow – Focused on International Tax Reform

Eliminate the double layer of taxation on overseas earnings, simplify the code to make the U.S. an attractive place to do business, protect the U.S. tax base by creating clear, manageable standards, apply revenues generated by tax reform to reduce the rate.

Business Coalitions Focused on Federal Tax Reform



Business United for Interest and Loan Deductibility – Focused on Interest Deduction

Supports comprehensive tax reform efforts. However, their aim is to preserve 100 percent interest deductibility, a core component of the tax code for 100 years.



Cost Recovery Advances the Nation's Economy – Focused on Accelerated Depreciation

Preserving accelerated depreciation to provide the capital we need to continue driving America's economic growth and job creation here at home.

Business Trade Associations



Tax reform for all businesses is fundamental to strengthening the U.S. economy and ensuring that American workers and American companies can successfully compete around the globe. A modernized U.S. tax system with competitive tax rates and competitive international tax rules would promote growth through greater investment, higher wages and more jobs in the United States.



U.S. Chamber of Commerce
Standing Up for American Enterprise

Committed to comprehensive reforms to the American tax system that will attract international investment, encourage innovation, foster economic growth and job creation, and increase American global competitiveness. It is advancing a pro-growth tax agenda to lower tax rates for businesses and individuals alike, establish a more economically rational tax base, and simplify compliance and administration.

Business Trade Associations



As Congress considers broad-based tax reform, NFIB continues to work with lawmakers to ensure the small business tax priorities are central to the debate. High tax rates and the complexity of the current tax code are persistent problems for small business owners. Fundamental tax reform is one way that Congress can create an economic environment which helps small businesses thrive.



Comprehensive tax reform is essential to unleashing the economic power of manufacturing, and making the United States the best place in the world to manufacture and attract foreign direct investment. Our nation's tax system, with extremely high rates, a host of temporary provisions and out-of-date international rules, undermines manufacturers' ability to compete and succeed.



Tax Reform Options Under Discussion



Recent Congressional Proposals

- **Former House Ways & Means Chairman Camp**
 - Comprehensive reform with a top rate of 25%, repeals many deductions including Section 199, makes permanent R&D credit, adopts a depreciation system similar to ADS while updating asset lives, repeals LIFO, and shifts to a territorial system with a 95% dividend received deduction.
- **Former Senate Finance Committee Chairman Baucus**
 - Proposes a modernized set of cost recovery and accounting rules that eliminate the long list of depreciation schedules for individual assets and replaces them with four “asset pools.” Each of these pools will include a set of capital assets. Businesses will need to place each asset into one of these pools, sum the total value of all assets in the pool and depreciate them at one set rate. Intent is for lives to approximate economic lives. Also would expense certain intangible assets over a five year period.



Recent Congressional Proposals

- **Senate Finance Committee Chair Hatch**
 - Working on a plan to eliminate the double taxation of corporate income. Do not anticipate release of any details until after elections. But thought is to allow corporations to deduct the dividends they pay to shareholders.
- **Senate Finance Committee Ranking Member Wyden**
 - Comprehensive reform with a top corporate rate of 24% for corporations and 3 individual brackets 15%- 25% - 35%, repeal of AMT, full expensing limited to small businesses, alternative depreciation with longer lives (subsequently released a proposal for pooled depreciation), limits interest deduction to amounts in excess of inflation, Worldwide international tax system that eliminates current deferral of foreign earnings and reinstates the “per country” limitation upon the Foreign Tax Credit, and taxes capital gains and dividends as ordinary income with a 35% exclusion.
- **House Blue Print – Speaker Ryan and Ways & Means Committee Chairman Brady**
 - Comprehensive reform with a top corporate rate of 20%, repeal of AMT, full immediate expensing of the cost of business investments (tangible and intangible), repeals the deduction for net interest expense, indefinite carry forwards and no carrybacks of NOL, keep LIFO, repeal 199, permanent R&D, provides for border adjustments exempting exports and taxing imports and a shift to a territorial system.



Multistate Tax Policy

COST





COST Policy Statements

Mandatory Unitary Combined Filing

Mandatory unitary combined reporting (“MUCR”) is not a panacea for the problem of how to accurately determine multistate business income attributable to economic activity in a State. For business taxpayers, there is a significant risk that MUCR will arbitrarily attribute more income to a State than is justified by the level of a corporation’s real economic activity in the State. A switch to MUCR may have significant and unintended impacts on both taxpayers and States. Further, MUCR is an unpredictable and burdensome tax system. COST opposes MUCR.

“Tax Haven” Designation

State “tax haven” designations are arbitrary and overly broad, reflect a discarded “worldwide” approach to state taxation, and are inappropriate to address income shifting or other tax avoidance concerns. Punitive treatment of multinational businesses with affiliates in countries designated by states as “tax havens” interferes with the U.S. Government’s ability to “speak with one voice” on foreign affairs and is constitutionally suspect. States should limit their income tax base to the domestic “water’s-edge” and not tax foreign income with little or no connection with the United States.



COST Policy Statements

Sales Taxation of Business Inputs

Imposing sales taxes on business inputs violates several tax policy principles and causes significant economic distortions. Taxing business inputs raises production costs and places businesses within a State at a competitive disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.

Consequences of Significant Tax Changes on Financial Reporting

When enacting significant corporate tax law changes, states must mitigate the immediate and negative impact of those changes on a company's financial reporting. While it is evident that companies may experience a change in their actual tax liability as a result of some tax law changes, the financial impact of having to immediately recognize additional tax expense for financial reporting purposes is not always evident.



AT&T