Capital Markets Strategy

Essential inCights for the C-Suite

Tax Code Changes

Expectations for US Tax Policy in the Year Ahead

MAR 2021

“The nation should have a tax system that looks like someone designed it on purpose.”

William Simon, US Treasury Secretary (1974 – 1977)

“Inflation is taxation without legislation.”

Milton Friedman, Nobel Prize winning US Economist (1912 – 2006)

“The propensity to trade, barter and exchange one thing for another is common to all men, and to be found in no other race of animals.”

Adam Smith, in *The Wealth of Nations* (1776)

“If Patrick Henry thought that taxation without representation was bad, he should see how bad it is with representation.”

Fathers Almanac, annual American periodical in continuous publication since 1818

“Of all debts, men are least willing to pay their taxes; what a satire this is on government.”

Ralph Waldo Emerson, American Essayist & Poet (1803 – 1882)

“We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”

Winston Churchill, UK Prime Minister (1874 – 1965)




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1. Historical Perspective

Taxation in Times of Crisis

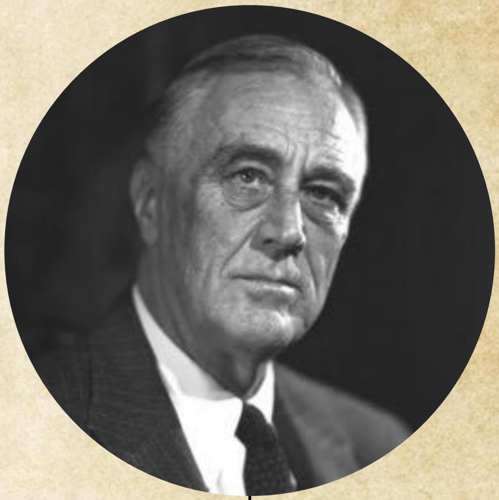
Taking a longer term view, higher taxes, slower growth and increased market volatility may inevitably follow the recent spike in Government debt burdens. Over the last 150 years, the US has a strong historical track record for higher taxation following times of crisis.

Revenue Act of 1861

President Abraham Lincoln imposes import taxes and a 3% tax on high incomes to fund the Civil War

Revenue Act of 1916 / War Revenue Act of 1917

President Woodrow Wilson reinstates the estate tax, raises the income tax on top earners to 15% and expands the corporate tax to pay for WWI. These taxes were significantly expanded in 1917, with the top bracket rising to 67%.



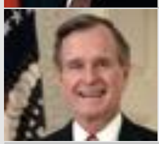
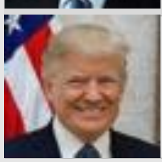
The Current Tax Payment Act of 1943

Passed into law under President Franklin D. Roosevelt, the US Treasury Department began tax withholding to finance WWII, with the top rate rising above 90%.

Historical Perspective on US Tax Reform

Late 19th C.	US Government raised all of its revenue from tariffs and excise taxes
1895	Supreme Court rules income tax unconstitutional
1913	US income tax becomes law via passage of the 16th Amendment and the Revenue Act of 1913 (mortgage interest, state and local taxes all made deductible)
1916	Farmers given immediate 100% expensing of equipment investments; federal estate tax introduced
1917	Charitable contributions made deductible
WWI	Taxes increased via 3 revenue acts, with top rate reaching 77% in 1918 (subsequently reduced in 5 phases during 1920s to low of 24% in 1929)
1921	Congress passes Revenue Act of 1921, which for first time distinguishes tax treatment of capital gains from ordinary income
1926	Employers' contribution to pension funds excluded from taxable income
1930s	President Roosevelt introduces numerous tax increases to fund New Deal and WWII
WWII	Top rate reaches 94% (on income over $200k); Congress introduces payroll withholding and quarterly tax payments
1950s	IRS significantly reorganized to improve tax collection
1962	President Kennedy signs tax bill to jumpstart economy with investment tax credits for business capex (repealed in 1969, then reinstated in 1971)
1960-70s	Tax rates remained high through period of large government deficits (introduction of Medicare), low growth and high inflation
1968	Corporate tax rates peak at 53%
1969	Congress introduces alternative minimum tax (AMT), and raises capital gains
1981	President Reagan passes Economic Recovery Tax Act of 1981 with sharp reduction in rates and capex incentives (subsequently paired back due to rising deficits)
1983	President Reagan hiked gas and payroll taxes
1984	As deficits continue to rise, President Reagan closes a number of loopholes for businesses
1986	President Reagan passes comprehensive Tax Reform Act, lowering top individual rate from 50% to 28%, and corporate tax from 50% to 35% (while closing many loopholes)
1993	President Clinton makes modest increases to tax rates
1997	Taxpayer Relief Act of 1997 expands child tax credits, introduces Roth IRAs and reduces long term cap gains from 28% to 20%
2001+2003	In two Acts, President Bush reduces tax rates on individuals, AMT, dividends, capital gains, estate taxes, and retirement accounts
2009	President Obama passes $831 billion crisis era stimulus package, which included over $275 billion of tax relief
2010	President Obama signs the Tax Relief Act, providing a temporary 2 year reprieve from numerous expiring sunset provisions in the Bush tax cuts
2010	President Obama signs healthcare bill called the Affordable Care Act, which includes $1 trillion of new taxes over the subsequent decade
2014	House Ways & Means Chairman Dave Camp (R-MI) releases draft tax reform proposal
2016	House Speaker Paul Ryan (R-WI) and Ways & Means Committee Chairman Kevin Brady (R-TX) release "A Better Way" blueprint for tax reform and other change
2017	President Trump signs generational US tax reform (TCJA)

Major US Tax Code Changes Since 1980

		Year	Directional Change	Description
	**Ronald Reagan** (1980-1988)	1981	↓	• Lower tax rates and investment tax incentives
		1982-84	↑	• Tax increases (correctional adjustments to 1981)
		1986	↓	• Historic "Tax Reform Act of 1986" (revenue-neutral)
	**George H.W. Bush** (1988-1992)	1990	↑	• Bipartisan budget deal includes tax increases
	**Bill Clinton** (1992-2000)	1993	↑	• Tax increase, largely focused on high earning individuals
		1997	↓	• Child tax credit introduced; tax cut on capital gains
	**George W. Bush** (2000-2008)	2003	↓	• Range of income tax cuts (10-year, $1.35tn plan) • Increase in child tax credit and phased-in reduction in estate taxes • Expansion of tax-favored retirement plans
	**Barack Obama** (2008-2016)	2009	↓ ↑	• Tax cuts in post-crisis fiscal stimulus package • New Obama Care (ACA) taxes
		2013	↓ ↑	• 2001-03 tax cuts extended for all except top bracket
	**Donald Trump** (2016-2020)	2017	↓	• Comprehensive tax reform, including corporate and individual rate cuts

Source: Wall Street Journal.


Scenario Analysis
& Considerations
2.

Scenario Analysis for US Tax Code Change

Tax and infrastructure bills are tough to do with very large electoral mandates, and may be prohibitively challenging in a polarized Washington with razor thin majorities. The "path" and "scope" for US tax code change is therefore difficult to predict so early in the year.

No tax change ← → Significant tax change

Sources
- No tax changes
- Narrow Congressional majority and tax code complexity preclude change

Uses
- $1 - $1.5 trillion infrastructure spending
- Highway bill / technology / green agenda

Legislative Path
- Bipartisan legislation and /or budget reconciliation
- 100% deficit financed

Sources
- Modest tax changes
- Corporate rate 23-25%
- GILTI rate to ~15%
- Higher individual rates for those earning >$400k

Uses
- $1 - $2 trillion infrastructure spending
- Highway bill / technology / green agenda

Legislative Path
- Bipartisan legislation and /or budget reconciliation
- Deficit financed + tax increases

Sources
- Significant tax changes
- Corporate rate 26-28%
- GILTI rate 18-21%
- Possible minimum tax by country
- Higher individual rates for those earning >$400k

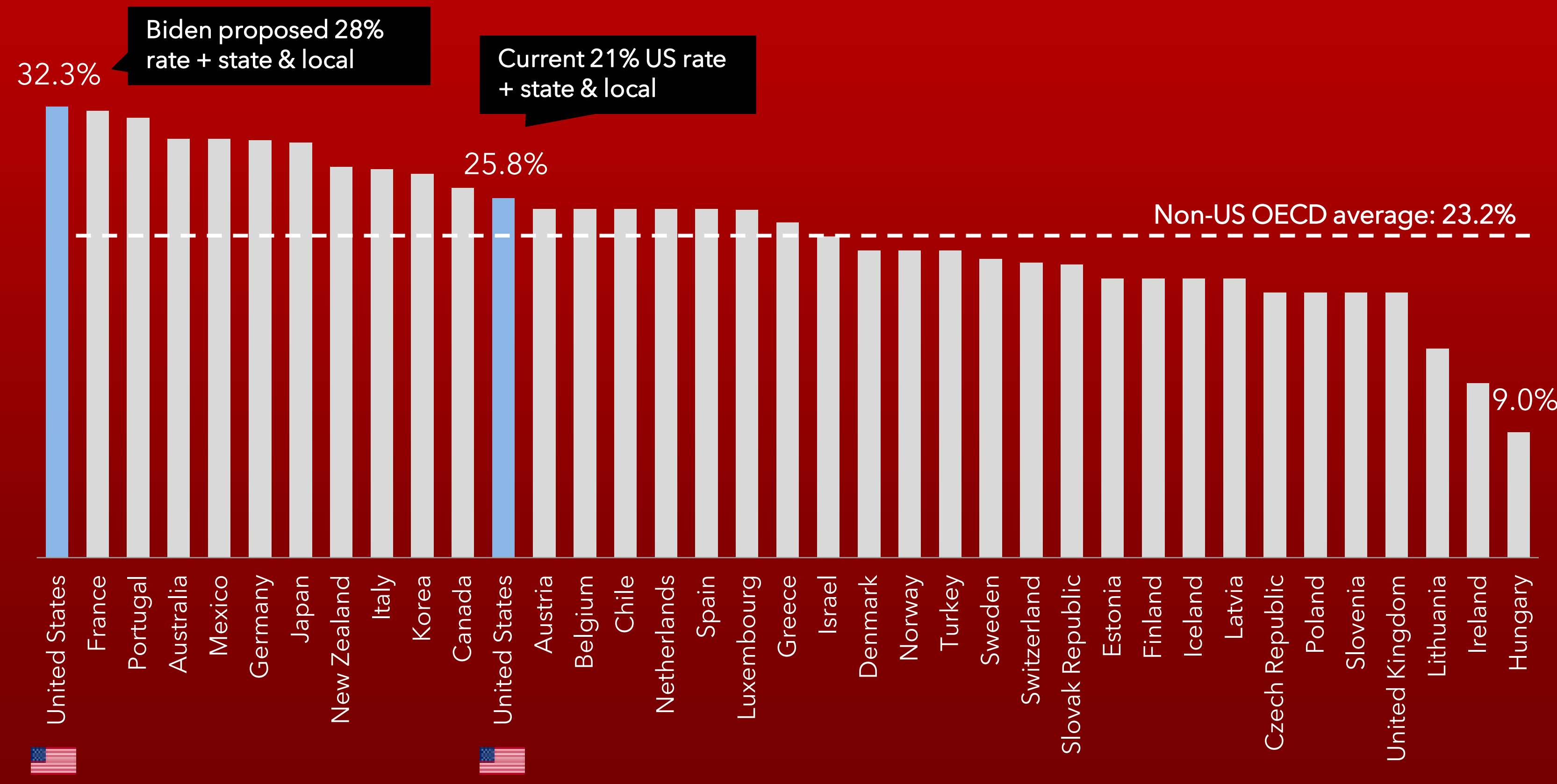
Uses
- $2 - $3 trillion infrastructure spending
- Comprehensive infrastructure, broadly defined
- Significant domestic production, social welfare and green agenda tax credits

Legislative Path
- Executed largely through FY 2022 budget reconciliation
- Deficit financed + substantive tax changes

Highest Corporate Tax Rates in the OECD

The combined US corporate tax rate (including federal, state & local taxes) is more than 2 points higher than the OECD average. If President Biden's plan is fully implemented, and the federal tax rate is raised to 28%, the US would have the highest corporate rate among the 37 OECD countries.

OECD corporate tax rates



Source: (1) OECD. Tax rates include central and sub-central combined rates. OECD average excludes the US. PWC "2021 Tax Policy Outlook: The Changing Horizon"

Corporate Tax Code Change Considerations

While modest corporate tax code change may be more likely than significant change, the international provisions in US tax law could be viewed as “low hanging fruit” for moderate Democrats, and therefore more vulnerable to change

Effective Date

- Prospective more likely than retroactive (i.e., Jan 2022 effective date)
- Numerous expiring provisions could be revised / delayed

Corporate Rate

- Tax rates >25% meet increased political resistance
- US highest in OECD at rates approaching 28%

GILTI Rate

- International provisions are “low hanging fruit” for Congress
- Increases close to Biden’s 21% proposal (i.e., 18-21% area) possible
- Multiple levers for change: statutory rate, QBAI repeal, country minimums

Country Minimum Tax

- While not easily executed, very much “in-play” as a possibility

Domestic Production Incentives

- “Made in America,” tech investment and green agenda incentives
- Formula-based grants and tax incentives
- Possible extension of R&D amortization provisions

Debt Interest Deduction Limitations

- Unclear if TCJA transition from EBITDA to EBIT in 2022 is delayed
- Possible expansion from 30% to 50% as in CARES Act?

Individual Tax Code Change Considerations

Democrats are likely to repeal several of President Trump's TCJA tax cuts for individuals earning above $400k, while making minor to modest change on numerous other provisions.

Tax Rate

- Individuals > 400k income likely to reset higher

Capital Gains

- Increase to 28% area more likely than Biden's ordinary tax rate proposal
- Scoring models suggest diminishing revenue returns > 28%

Estate Tax

- Reset somewhere between current law and Biden proposal may be most likely (i.e., ~$5.5 mm per spouse / $11 mm per couple)
- Taxing unrealized gains at time of death (complicated, but nonetheless possible)

SALT Deduction

- Full restoration of SALT deduction unlikely given political dynamics between red and blue states, moderates and progressives
- Possible expansion of deduction to $12 – 15k, elimination of "marriage penalty", and / or addition of inflation adjustments

Social Welfare/ Income Inequality Adjustments

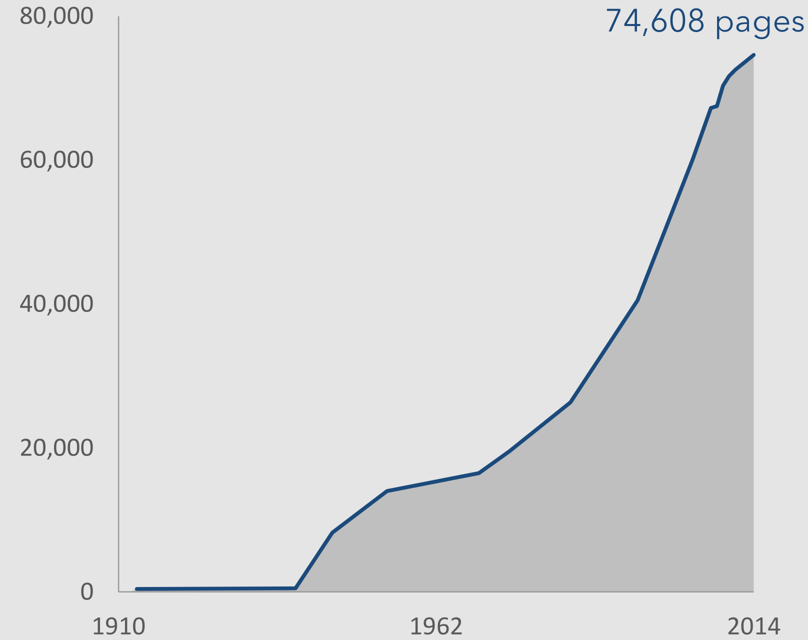
- Expansion and / or permanence for selected tax code provisions (i.e., child care tax credit, EITC)

Headwinds for Tax Code Change

In their "classic" book, **Showdown at Gucci Gulch**, authors Jeffrey Birnbaum and Alan Murray provide a detailed recounting of revolutionary US tax reform in 1986. In doing so, they provide an outstanding case study of how difficult it is to change the US tax code, defy the odds, and balance the conflicting objectives of powerful interest groups including elected officials, companies, lobbyists, regulators and trade associations.

Tax Code Change Headwinds
• Complexity of US tax code
• Narrow majorities in Senate and House
• Power politics and bipartisan acrimony
• Balancing Democratic moderates and progressives
• Congressional procedural rules and processes (i.e., Byrd rule)
• Entrenched vested interests (politicians, regulators, corporates, lobbyists, trade associations)
• International competitiveness and political pushback
• Economic and labor market implications
• Debt and deficits
• Resistance to "green agenda" incentives
• Varying assessments of fairness and inequality

The complete list of statutes, regulations and case law that make up US tax law has been estimated at > 70,000 pages



Source: (1) Tax Foundation "How Many Words are in the Tax Code." CCH.


3.
The Path

Path #1: Bipartisan Approach

While not necessarily the most likely scenario, it is quite possible that Republicans and Democrats work together on a smaller initial infrastructure bill built around the renewal of the Highway Bill (set to expire on September 30) with additional broadband and limited green agenda items added in. However, Republican leaders have signaled caution around the idea of cooperating on bipartisan legislation, knowing that Democrats would likely follow with a larger reconciliation bill that includes more progressive policy priorities.

Step 1:
Bipartisan Highway & Infrastructure Bill

- **Size:** $750 billion - $1 trillion
- **Timing:** Late Q3 2021

Key features:

- Renewal of the Federal Surface Transportation Act (aka Highway Bill)
- Technology infrastructure (broadband, China competitiveness)
- Limited Green Agenda spending

Step 2:
"Democrat Only" Budget Reconciliation Bill

- **Size:** $1-2 trillion
- **Timing:** Q4 2021

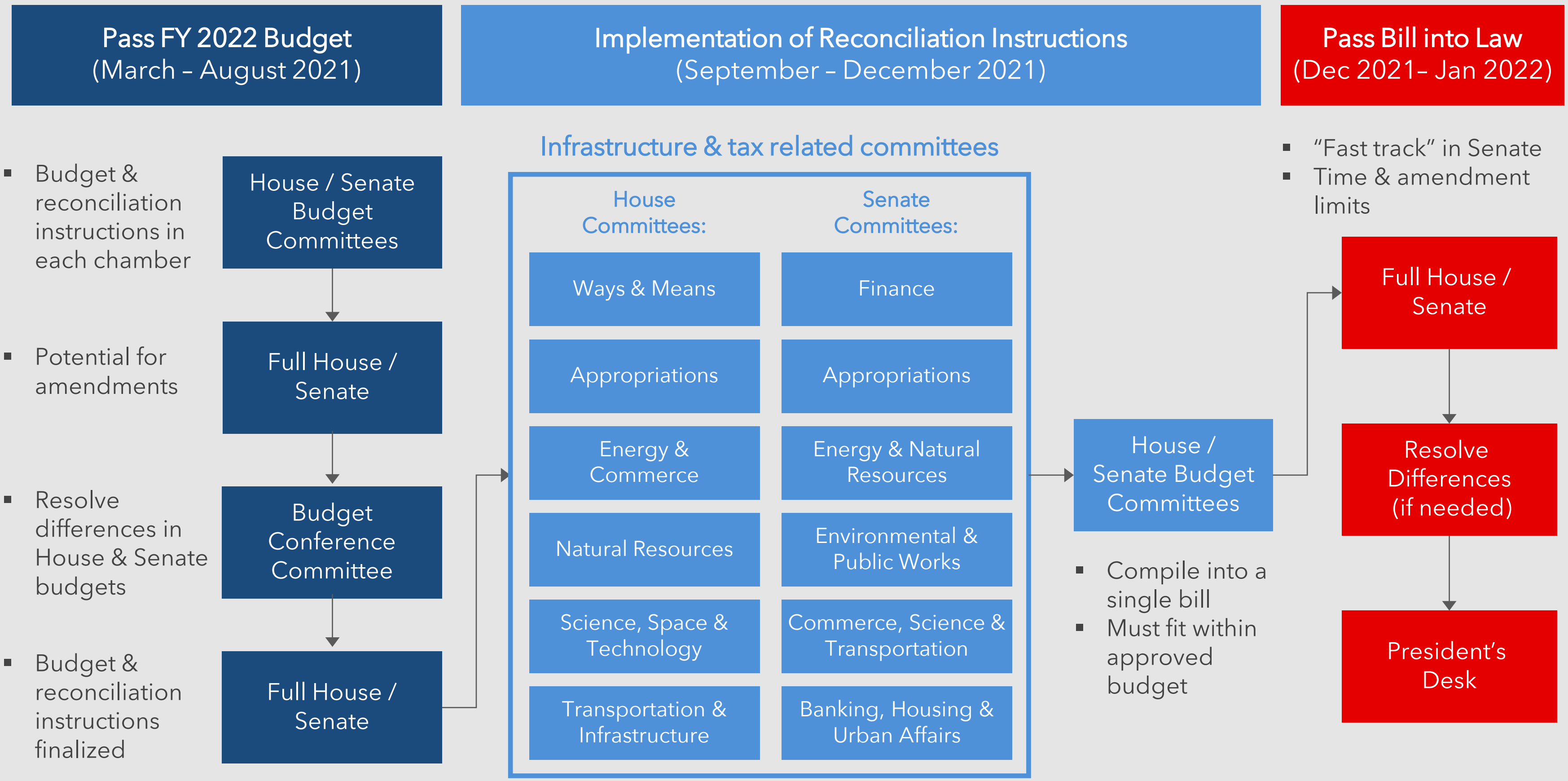
Key features:

- Additional infrastructure spending
- Additional Green Agenda spending
- Social welfare agenda / income inequality adjustments (i.e., child care tax credit)

As evidenced by House GOP members recently removing their decade long self-imposed ban on earmarks, Republicans may be positioning themselves to participate in bipartisan infrastructure legislation

Path #2: "Democrat Only" Budget Reconciliation

Democrats will pivot in April toward a FY 2022 budget, with reconciliation instructions for infrastructure spending (broadly defined) and tax code changes. Though a long and difficult process, a large "Democrat only" reconciliation bill may be the more likely path for tax code change.



Source: (1) Committee for a Responsible Federal Budget.

The Timeline: Likely Q4 2021

The FY 2022 budget process will be enormously complex and will take time. Look for Congress to prioritize finalizing a budget bill with reconciliation instructions by the August recess with detailed committee work and breakdown on spending and revenue measures to come in Q4 2021.

April	President Biden's State of the Union & release of FY 2022 budget proposal	
April – July	Relevant Senate committees send budget requests to Senate Budget Committee	Relevant House committees send budget requests to House Budget Committee
	Senate Budget Committee integrates	House Budget Committee integrates
	Budget passed in full Senate vote	Budget passed in full House vote
August / September (targeting budget approval before August recess)	Possible passage of a smaller bipartisan infrastructure bill in advance of the September 30 expiry of the current Highway Bill Democrats concurrently expected to pass a budget reconciliation bill with detailed infrastructure spending & tax code legislation to follow by year end	
September - December	Relevant House / Senate committees propose detailed bill provisions within allocated budget framework	
	Budget committees integrate into comprehensive legislation	
December – January (target adjournment: Dec 10)	Bills pass in full House / Senate; differences in bills ironed out in reconciliation committee	

Driver #1 of Tax Code Change: Pay for Infrastructure

President Biden's "American Jobs" plan, announced on March 31, proposes approximately $2.25 trillion of spending over eight years, offset by corporate and international tax code changes. Biden is expected to announce a second part of his spending plan, more than $1 trillion of "care infrastructure" (social welfare, income inequality adjustments), later in April.

Phase 1: "Hard" Infrastructure

- Announced: March 31, 2021
- Size: $2.25 Trillion
- Key Components:
  - Shovel-ready infrastructure projects
  - High tech / broadband investment
  - Environmental infrastructure
  - Social infrastructure

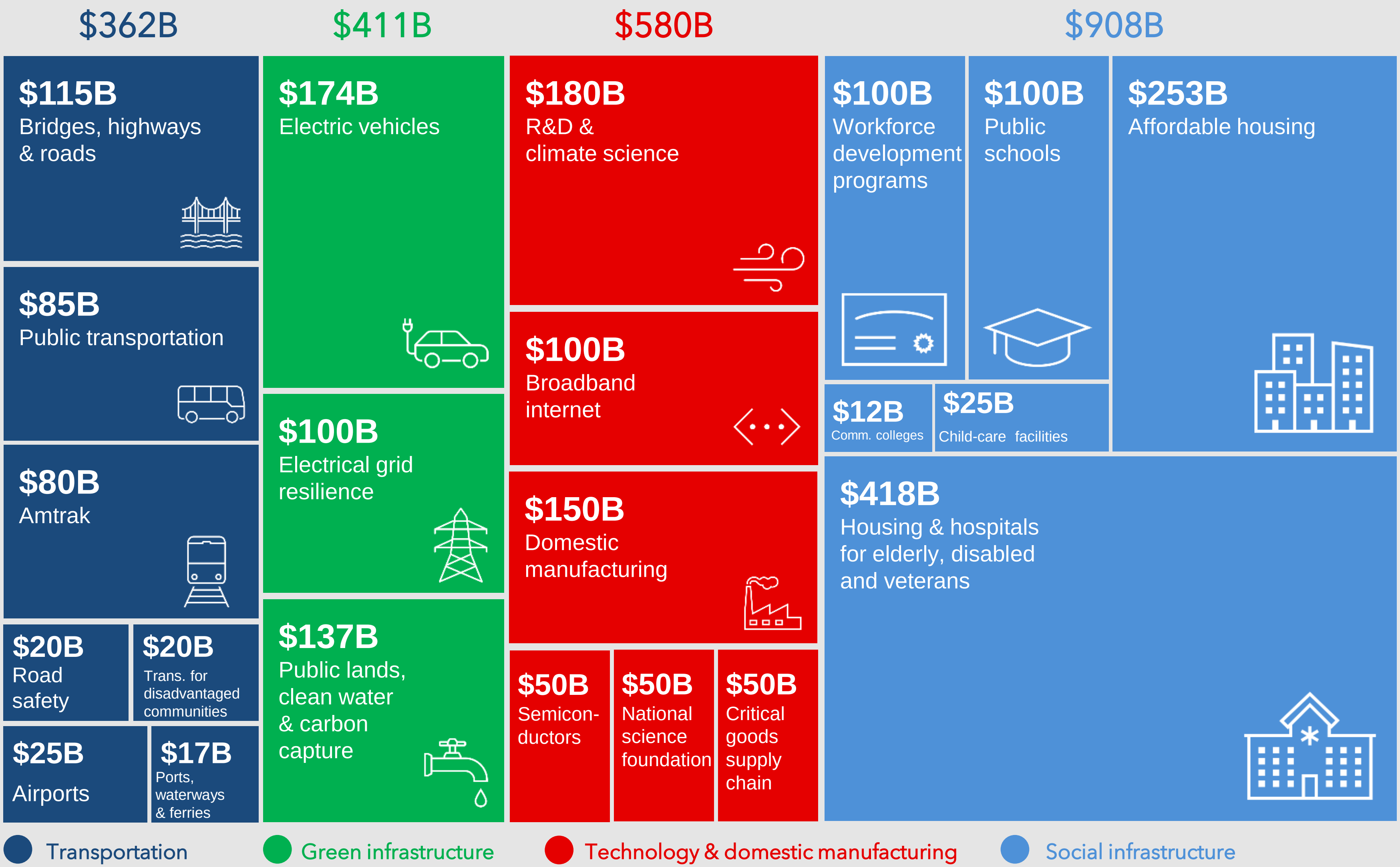
Phase 2: "Soft" Infrastructure

- Announced: Expected in April, 2021
- Size: $1 Trillion +
- Key Expected Components:
  - Health care accessibility
  - Expanded paid-leave
  - Income inequality tax credits made permanent

The President has embraced a more expansive definition of generational infrastructure spending to include investments in physical, technological, environmental and human capital

Source: (1) The Biden Plan to Invest in Middle Class Competitiveness. The Biden Plan to Build a Modern Sustainable Infrastructure and an Equitable Clean Energy Future.

Breakdown of $2.25 Trillion "American Jobs Plan"

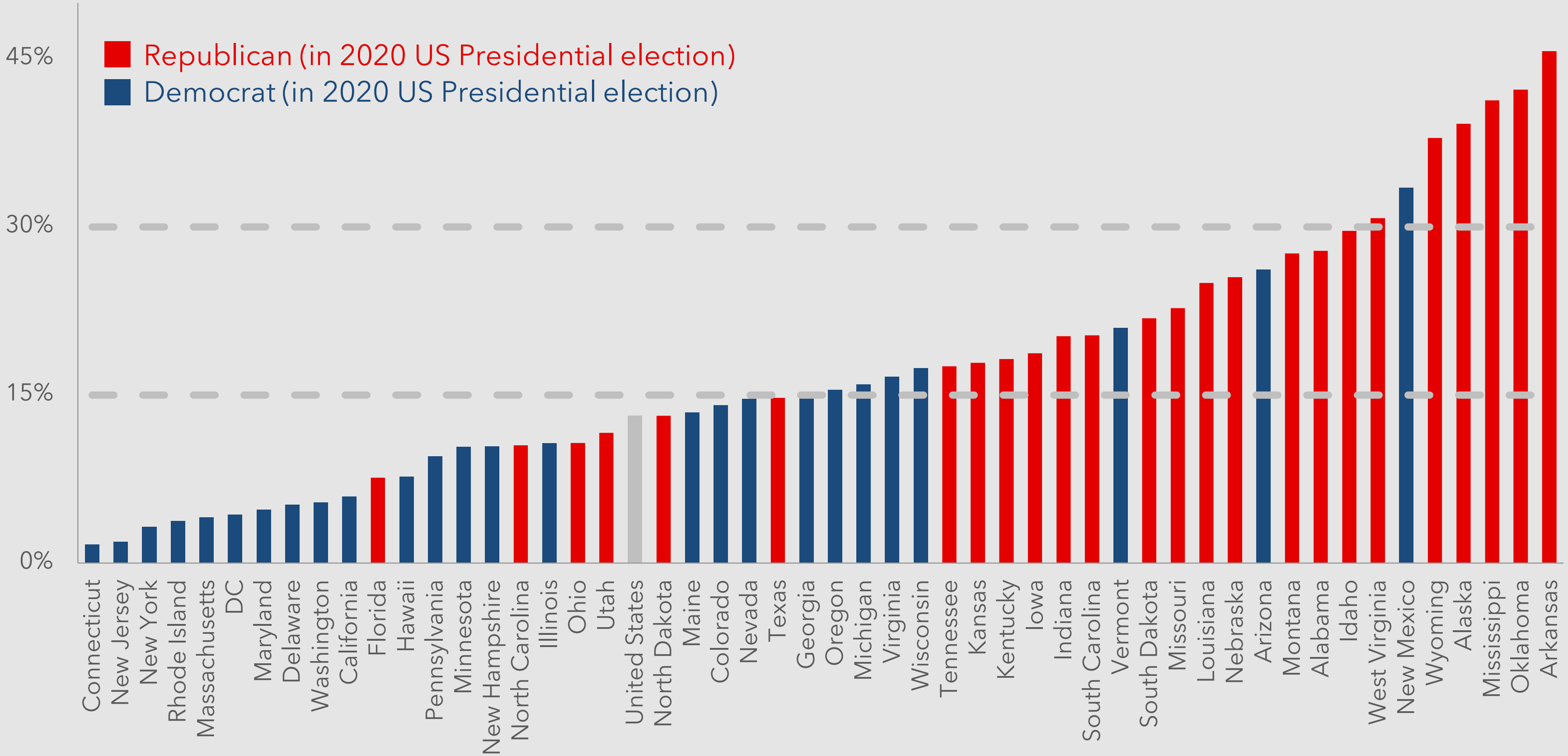


Source: (1) President Biden's "The American Jobs Plan". Bloomberg Government "What's in Biden's $2.25 Trillion Infrastructure and Tax Proposal".

Infrastructure Will Inform US Tax Code Change

42 million Americans do not have access to broadband internet, according to a 2020 study by BroadbandNow. With both "red" and "blue" states impacted by the lack of access, look for broadband investment to be featured in President Biden's FY 2022 budget (expected in April) and subsequent infrastructure legislation.

Percent of population **without** access to broadband



Source: (1) BroadbandNow Research. "FCC reports broadband unavailable to 21.3 million Americans, BroadbandNow study indicates 42 million do not have access." February 3, 2020. Democratic and Republican states based on results of 2020 Presidential election.

Driver #2 of Tax Code Change: Income Inequality Adjustments

Later in April, President Biden is expected to announce over $1 trillion in social welfare and income inequality adjustments including expanding health care and paid-leave access and making permanent some temporary tax provisions from the $1.9 trillion stimulus bill

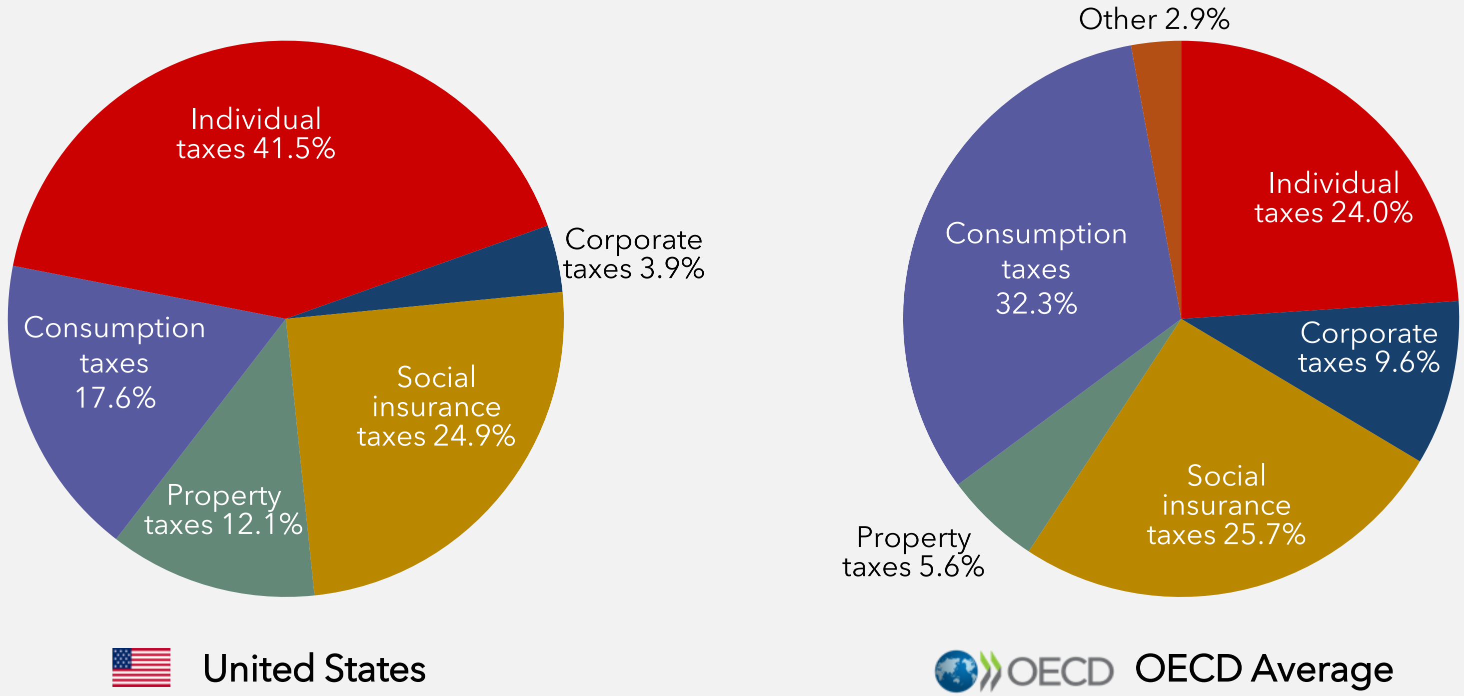
Estimated ten year cost of making selected American Rescue Plan Act provisions permanent

Source: (1) Joint Committee on Taxation. Estimated Revenue Effects of H.R. 1319, The "American Rescue Plan Act of 2021," as amended by the Senate. March 9, 2021. Tax Foundation "Making the Expanded Child Tax Credit Permanent Would Cost Nearly $1.6 Trillion". Committee for a Responsible Federal Budget "American Rescue Plan Could Set Stage for $4 Trillion of Debt".

Driver #3 of Tax Code Change: Rebalancing the Tax Code

While perhaps not a primary driver of tax code change, President Biden and Democrats campaigned on a promise to rebalance the US tax code with higher rates for corporations and high income individuals. Increasing consumption taxes to OECD levels is likely a political non-starter in a US economy driven nearly 70% by the consumer.

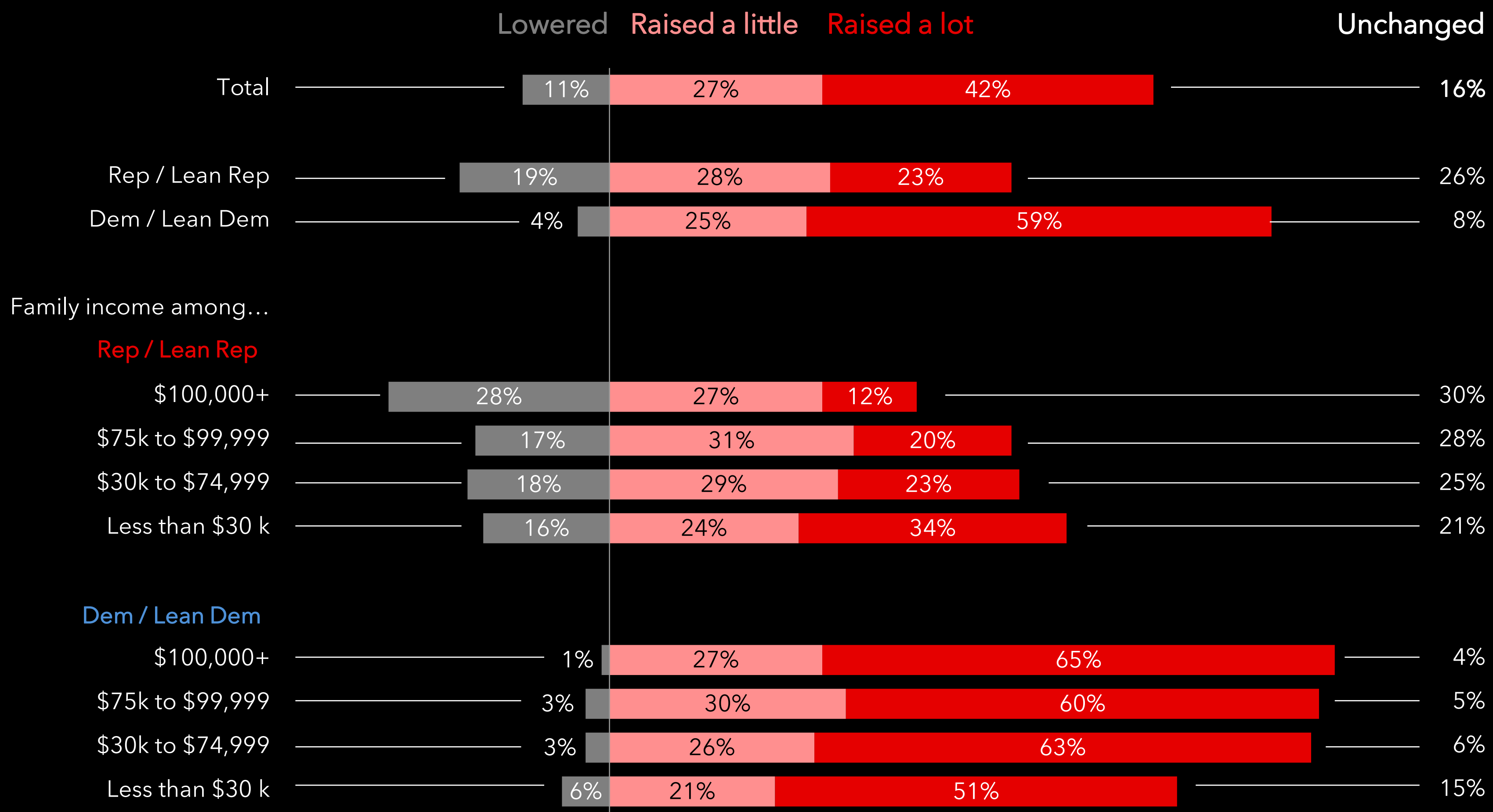
Sources of tax revenue in the US compared to OECD average, 2019



Source: (1-2) Tax Foundation. OECD, "Revenue Statistics - OECD Comparative tables." Data as of February 17, 2021.

Half of Republicans, and most Democrats, favor raising taxes on large businesses and corporations

% who say tax rates on large businesses and corporations should be…



Source: (1) Pew Research Center. "In a Politically Polarized Era, Sharp Divides in Both Partisan Coalitions". December 17, 2019. Survey of US adults conducted September 3-15, 2019. No answer responses not shown.

Pew Research Center

Driver #4 of Tax Code Change: Qualifying Provisions for Budget Reconciliation

As indicated by the Senate Parliamentarian during the $1.9 trillion stimulus bill, certain project specific infrastructure and green agenda spending proposals may not fit within the rules of a FY 2022 budget reconciliation bill. Early signals suggest that the September highway bill renewal will also not qualify, thereby increasing the incentives for Democrats to pursue a bipartisan approach (difficult or unlikely as this may be).

Types of infrastructure projects unlikely to qualify for budget reconciliation

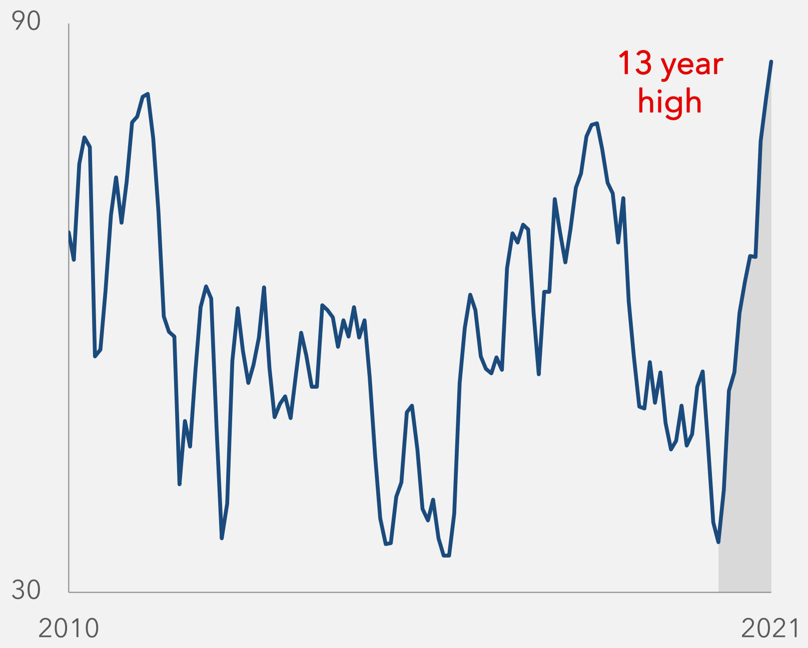
Federal Surface Transportation Act (FAST)	• "Highway Bill" that is set to expire September 30, 2021 • Provides funding to state and local governments to preserve and improve highways, bridges and tunnels as well as funding for mass transit and other transportation infrastructure • Re-authorization expected on bipartisan basis before September expiry; additional infrastructure plans may be "tacked on" to legislation
Bay Area Rapid Transportation (BART)	• $141 million project to extend San Francisco subway system into downtown San Jose • Removed from $1.9 trillion COVID relief bill by Senate Parliamentarian due to its status as a "pilot program" • Unlikely to qualify for future budget reconciliation efforts
Seaway International Bridge	• $1.5 million in funding for bridge between part of upstate New York and Canada • Removed from $1.9 trillion COVID relief bill by Senate Parliamentarian • Unlikely to qualify for future budget reconciliation efforts

Source: VEDA Partners "Wrapping up the Stimulus & Getting Ahead of the Infrastructure Bill" March 1, 2021. The Hill.

Driver #5 of Tax Code Change: Supply Chain Disruptions

Supply chain disruption has become a defining feature of the COVID era as evidenced by shortages in shipping containers, semiconductors and resins used to make plastics and medical equipment. In addition, supply chain security and national security have become increasingly intertwined. To this end, President Biden has proposed a broad range of sizable tax incentives and investment funds to promote US domestic manufacturing and high tech production onshore (i.e., semiconductors, 5G).

In February 2021, the ISM Manufacturing Business Prices Paid Index reached its highest level since June 2008



Selected Biden tax proposals to promote domestic manufacturing

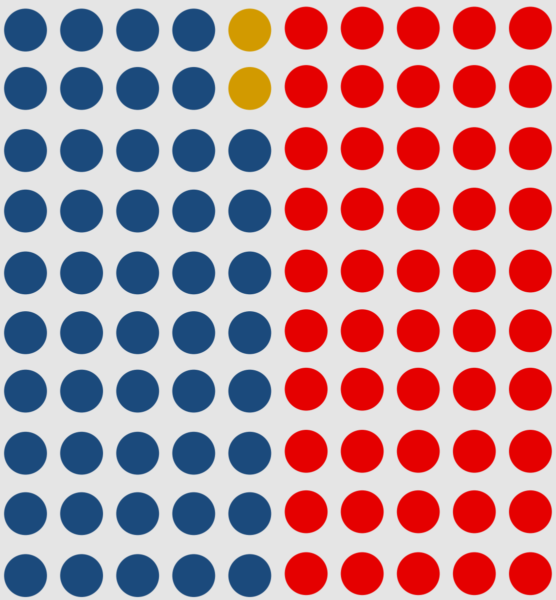
- 10% "Made in America" domestic investment credit
- Incentives for making critical products in the US
- New manufacturing communities tax credit
- Incentives for domestic pharmaceutical production
- 10% offshoring surtax
- Increasing GILTI rate
- Country-by-country minimum tax
- Anti-inversion penalties
- Claw-backs for "offshoring" production

Source: (1) Bloomberg. Data as of March 25, 2021.

Razor Thin Majorities in Congress

With the thinnest possible majority in the Senate, Democrats will struggle to balance the competing objectives of more moderate and progressive wings of the party. The Democratic House majority, at only four seats, is the tightest since World War II.

US Senate



Notable Democratic Moderates

On fiscal issues:
Joe Manchin (D-WV)
Jon Tester (D-MT)

Other Moderates:
Angus King (I-ME)
Chris Coons (D-DE)
Kyrsten Sinema (D-AZ)
Mark Kelly (D-AZ)
John Hickenlooper (D-CO)

Notable GOP Moderates

Lisa Murkowski (R-AK)
Susan Collins (R-ME)
Mitt Romney (R-UT)
Additional names issue-dependent

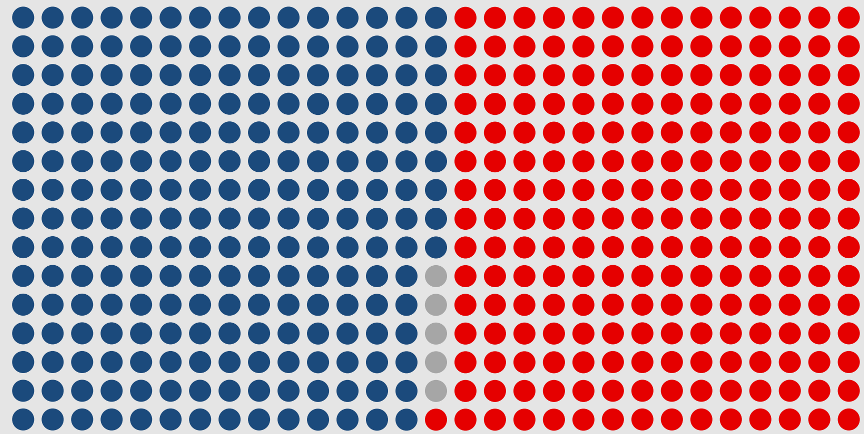
Democrats 50*

One seat majority with VP Harris as "tie breaker"

Republicans 50

Independents caucus with democrats

US House



Democrats 219

Four seat majority

Republicans 211

Vacancies

*Source: (1) MUFG Head of Government Affairs (Roger Hollingsworth), PIMCO Head of Government Affairs (Libby Cantrill). Bloomberg Government. *Includes independents who caucus with democrats.*

Senate Finance Committee

The Senate Finance Committee is currently composed of 14 Democrats and 14 Republicans, though 13 senators are subject to re-election in 2022. It is the primary committee in the Senate responsible for driving tax changes and other revenue measures.

Democrats	Republicans
Ron Wyden (D-OR), Chairman	Mike Crapo (R-ID), Ranking Minority Member
Debbie Stabenow (D-MI)	**Charles Grassley (R-IA)**
Maria Cantwell (D-WA)	John Cornyn (R-TX)
Robert Menendez (D-NJ)	**John Thune (R-SD)**
Thomas Carper (D-DE)	**Richard Burr (R-NC)***
Benjamin Cardin (D-MD)	**Rob Portman (R-OH)***
Sherrod Brown (D-OH)	**Patrick J. Toomey (R-PA) ***
Michael Bennet (D-CO)	**Tim Scott (R-SC)**
Robert Casey, Jr. (D-PA)	Bill Cassidy (R-LA)
Mark Warner (D-VA)	**James Lankford (R-OK)**
Sheldon Whitehouse (D-RI)	Steve Daines (R-MT)
Maggie Hassan (D-NH)	**Todd Young (R-IN)**
Catherine Cortez Masto (D-NV)	Ben Sasse (R-NE)
Elizabeth Warren (D-MA)	John Barrasso (R-WY)

*Senators subject to re-election in 2022 in **bold**,*
**Not running for re-election*

Source: (1) PWC. "2021 Tax Policy Outlook: The Changing Horizon" (January 2021).

House Ways & Means Committee

The House Ways and Means Committee is currently composed of 25 Democrats and 18 Republicans. The House Ways & Means Committee is the primary committee in the House responsible for tax policy, tariffs and other revenue related measures.

Democrats		Republicans	
Richard Neal (D-MA), Chairman		Kevin Brady (R-TX), Ranking Minority Member	
Lloyd Doggett (D-TX)	Gwen Moore (D-WI)	Devin Nunes (R-CA)	Darin LaHood (R-IL)
Mike Thompson (D-CA)	Dan Kildee (D-MI)	Vern Buchanan (R-FL)	Brad Wenstrup (R-OH)
John Larson (D-CT)	Brendan Boyle (D-PA)	Adrian Smith (R-NE)	Jodey Arrington (R-TX)
Earl Blumenauer (D-OR)	Don Beyer (D-VA)	Tom Reed (R-NY)	Drew Ferguson (R-GA)
Ron Kind (D-WI)	Dwight Evans (D-PA)	Mike Kelly (R-PA)	Ron Estes (R-KS)
Bill Pascrell Jr. (D-NJ)	Brad Schneider (D-IL)	Jason Smith (R-MO)	Carol Miller (R-WV)
Danny Davis (D-IL)	Tom Suozzi (D-NY)	Tom Rice (R-SC)	Llyod Smucker (R-PA)
Linda Sanchez (D-CA)	Jimmy Panetta (D-CA)	David Schweikert (R-AZ)	Kevin Hern (R-OK)
Brian Higgins (D-NY)	Stephanie Murphy (D-FL)	Jackie Walorski (R-IN)	
Terri Sewell (D-AL)	Jimmy Gomez (D-CA)		
Suzan DelBene (D-CA)	Steven Horsford (D-NV)		
Judy Chu (D-CA)	Stacey Plaskett (D-VI)		

Source: (1) PWC. "2021 Tax Policy Outlook: The Changing Horizon" (January 2021).


4.
The Math

The Math: Biden's Tax Proposal

According to a November 2020 analysis from the nonpartisan Urban-Brookings Tax Policy Center, President Biden's tax proposal would raise an incremental $2 trillion in revenue over ten years ($3 trillion of tax increases less approximately $1 trillion in new tax credits). This analysis does not include numerous undisclosed tax details from President Biden's March 31 announcement.

Estimated ten year net revenue impact of Biden's tax plan, USD bn

Business taxes	Individual income and payroll taxes	Estate and gift / wealth taxes
$1.1 Trillion	$758 Billion	$218 Billion

Total 2021-2030 Revenue Effect — $2.1 Trillion

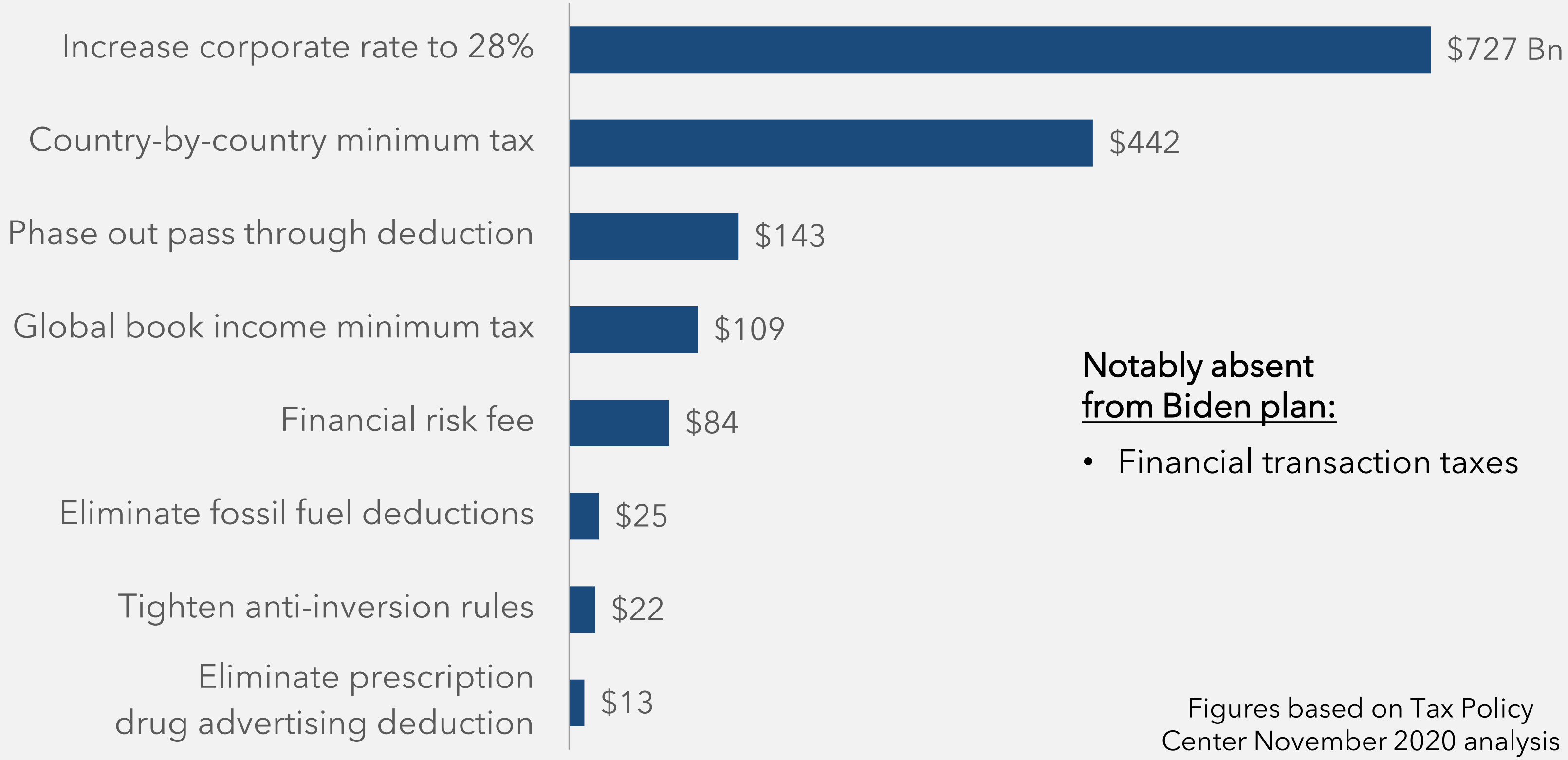
Source: (1) Urban-Brookings Tax Policy Center Microsimulation Model (version 0920-1) and Tax Policy Center estimates. Baseline is current law. Tax Policy Center. "An updated analysis of former Vice President Biden's Tax Proposals". Static scoring only. PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Largest Proposed Corporate Revenue Producers

Each point increase in the statutory tax rate provides approximately $100 bn in federal revenue over 10 years, making President Biden's proposed increase to 28% the largest revenue producer in his plan

Largest proposed corporate tax revenue producers

2021-2030, USD bn



Notably absent from Biden plan:

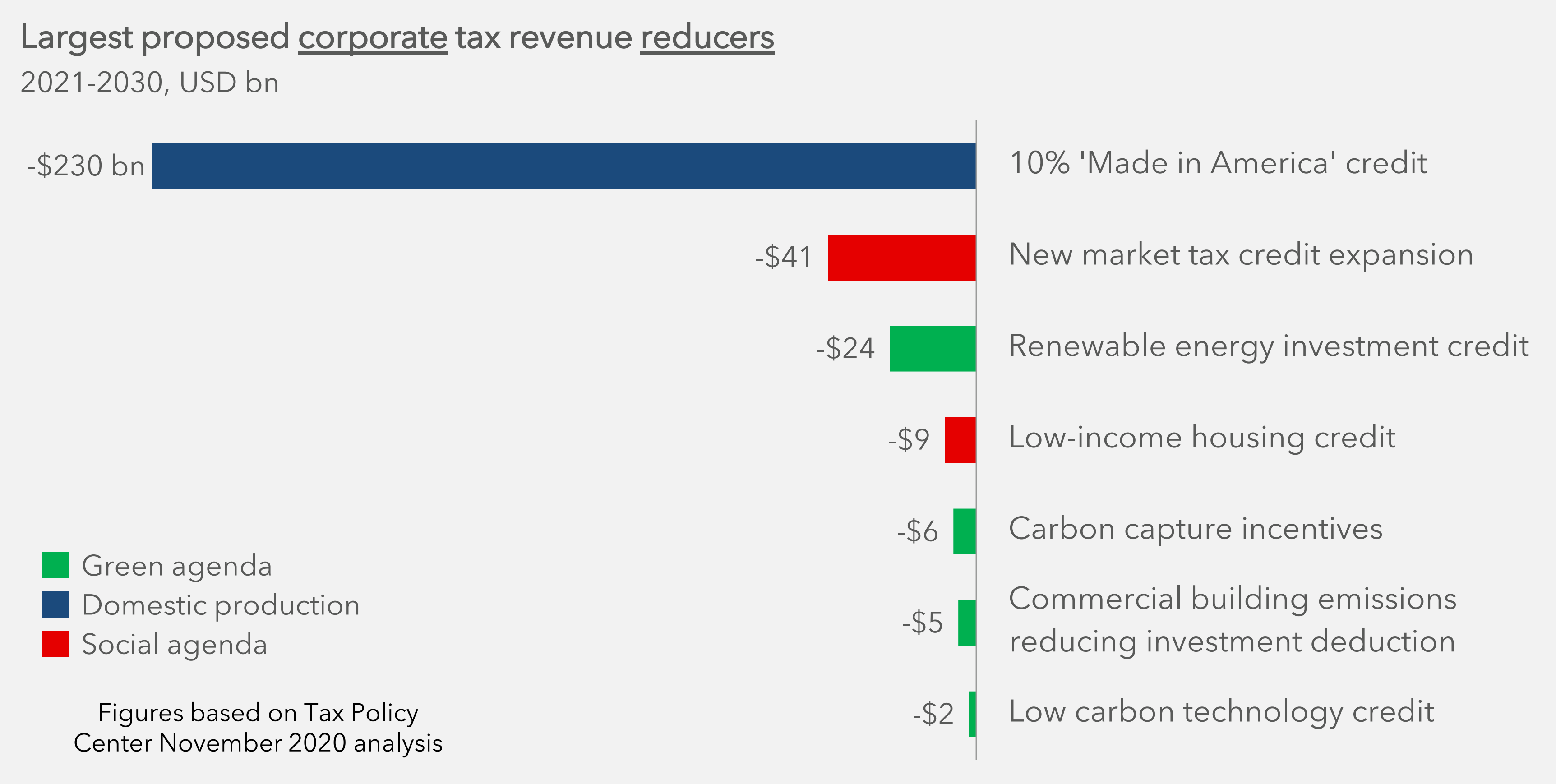
- Financial transaction taxes

Figures based on Tax Policy Center November 2020 analysis

Source: (1) Tax Policy Center. "An updated analysis of former Vice President Biden's Tax Proposals". Static scoring only. PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Largest Proposed Corporate Revenue Reducers

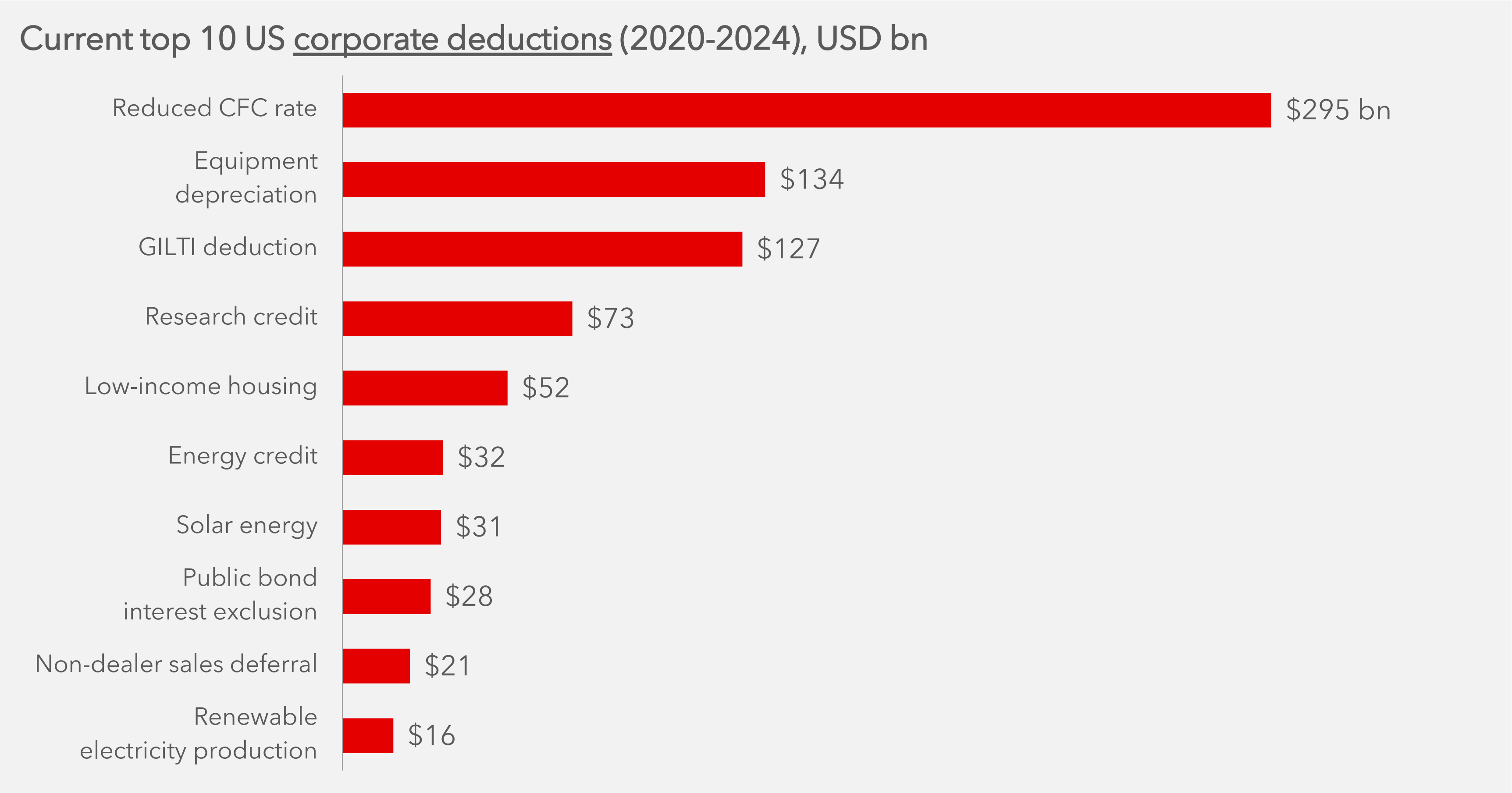
If fully implemented, the corporate portion of President Biden's tax plan would raise a net $1.1 trillion over 10 years. However, the plan does provide numerous incentives for clean energy investment and domestic manufacturing.



Source: (1) Tax Policy Center. "An updated analysis of former Vice President Biden's Tax Proposals". Static scoring only. PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Largest Current Corporate Tax Deductions

A review of the largest estimated US corporate tax deductions shines a light on portions of the US code that could become vulnerable in a legislative process that will be searching for additional sources of revenue to fund infrastructure.



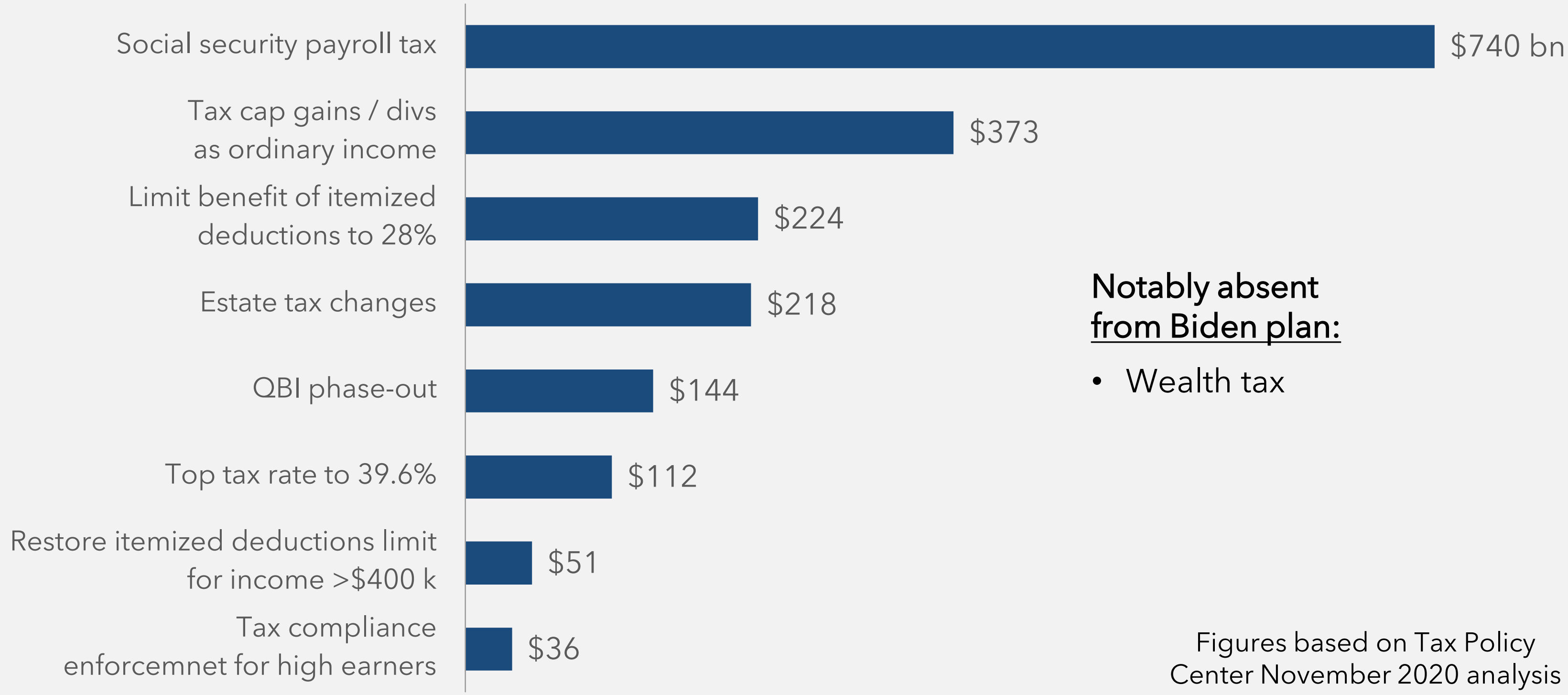
Source: (1) Joint Committee on Taxation Annual Report, "Estimates for Federal Tax Expenditures for Fiscal Years 2020-2024." November 5, 2020. CFC – controlled foreign company

Largest Proposed Individual Revenue Producers

42% of US tax revenue comes from individual taxes and President Biden is likely to focus on shifting more of that burden away from low and middle income families. Of particular focus will be increasing the highest rate, changing how capital gains, dividends, carried interest and retirement contributions are treated, and expanding a whole host of child and care giver tax credits.

Largest proposed individual tax revenue producers

2021-2030, USD bn



Notably absent from Biden plan:

- Wealth tax

Figures based on Tax Policy Center November 2020 analysis

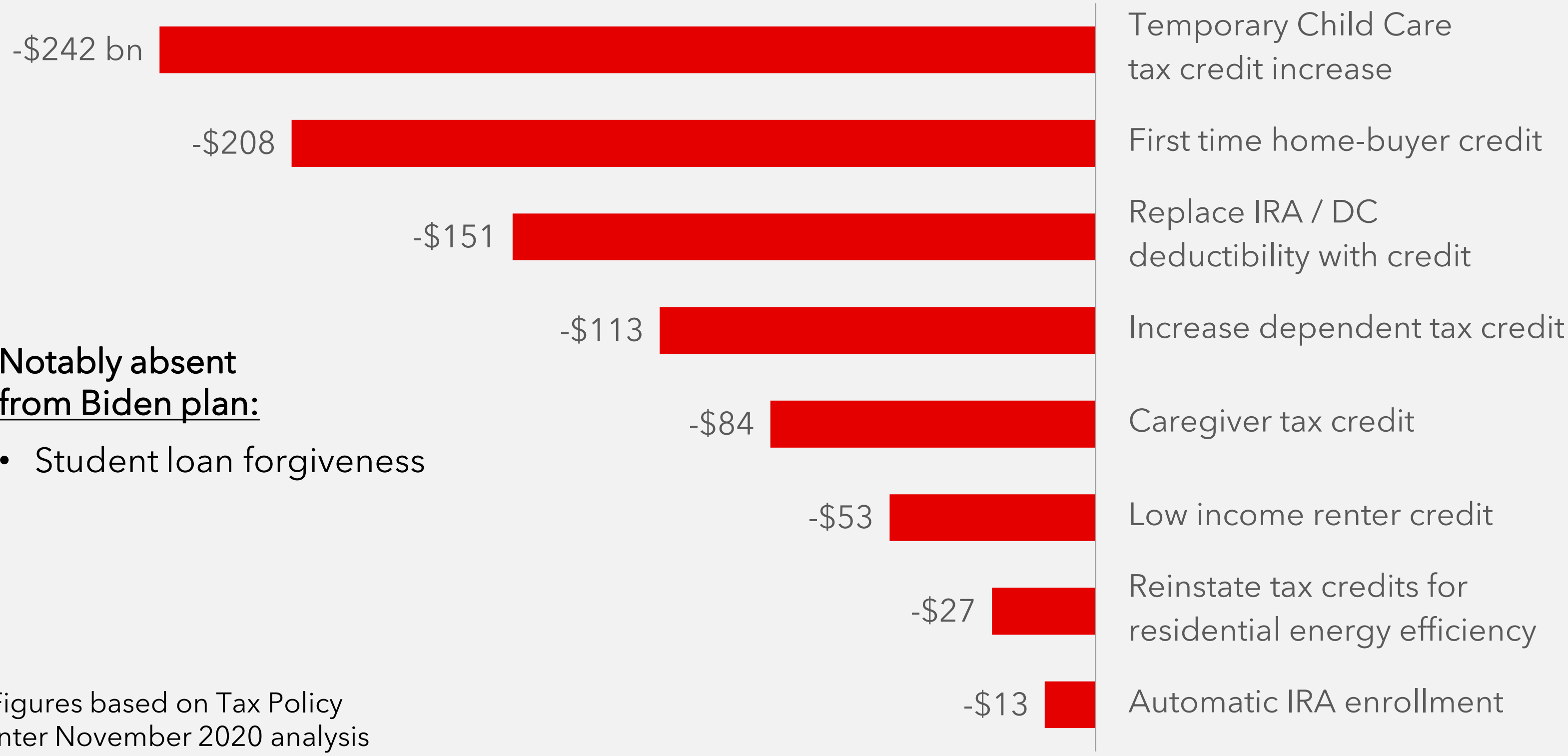
Source: (1) Tax Policy Center. "An updated analysis of former Vice President Biden's Tax Proposals". Static scoring only.

Largest Proposed Individual Revenue Reducers

In addition to the individual deductions President Biden outlined in his campaign tax plan, Democrats will push to make many of the temporary low-income household tax cuts in the $1.9 trillion American Rescue Plan permanent.

Largest proposed individual tax revenue reducers

2021-2030, USD bn



Notably absent from Biden plan:

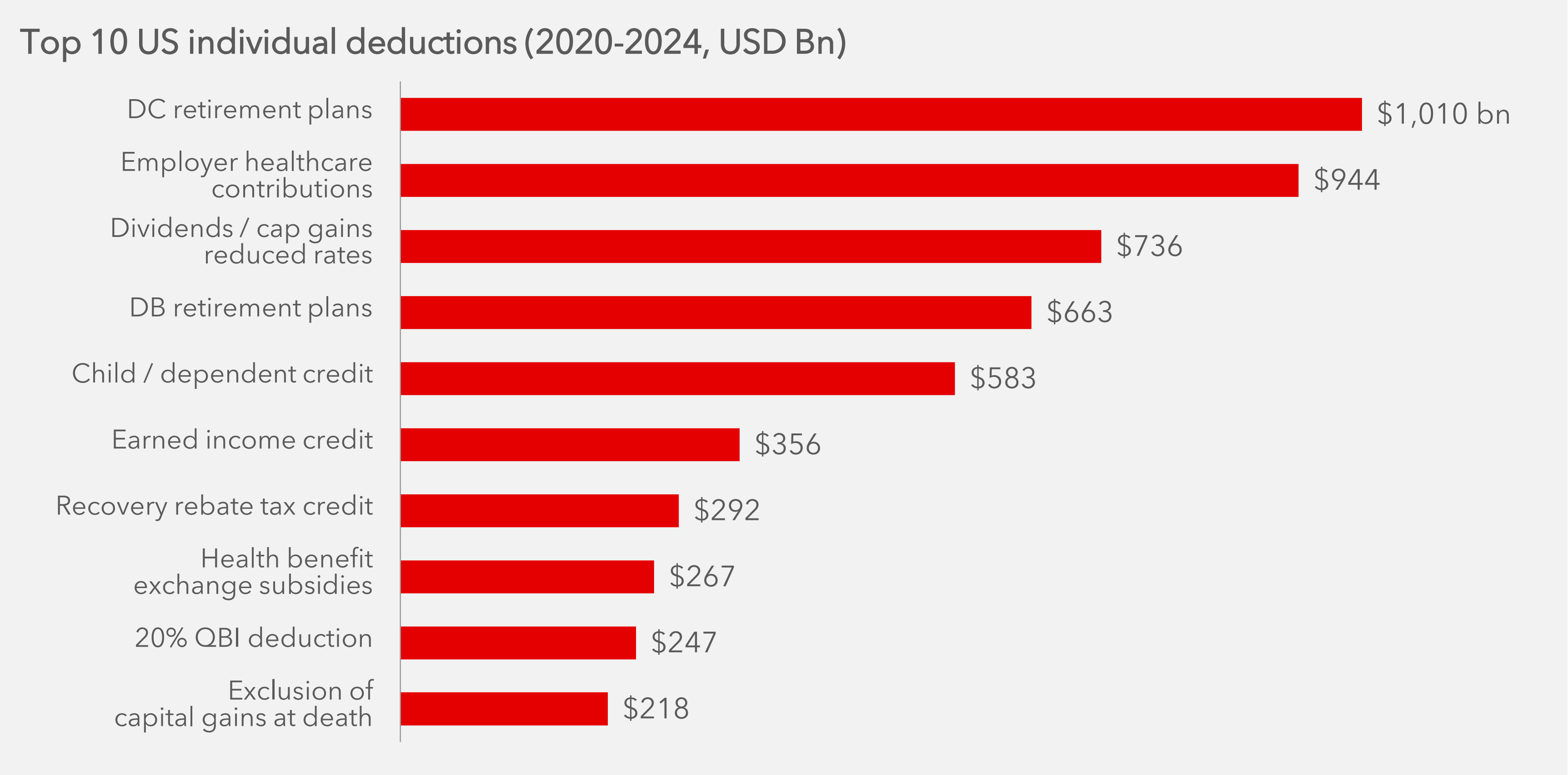
- Student loan forgiveness

Figures based on Tax Policy Center November 2020 analysis

Source: (1) Tax Policy Center. "An updated analysis of former Vice President Biden's Tax Proposals". Static scoring only.

Largest Current Individual Tax Deductions

Increasing the rate paid on dividends and capital gains for those earning over $400 k per year and replacing 401(k) contribution deductibility with a 26% refundable tax credit are two of President Biden's largest proposed changes to the individual tax code, effectively reducing three of the top four existing individual deductions



Source: (1) Joint Committee on Taxation Annual Report, "Estimates for Federal Tax Expenditures for Fiscal Years 2020-2024." November 5, 2020.


5.
Corporate Tax
Code Changes

Proposed Corporate Tax Changes

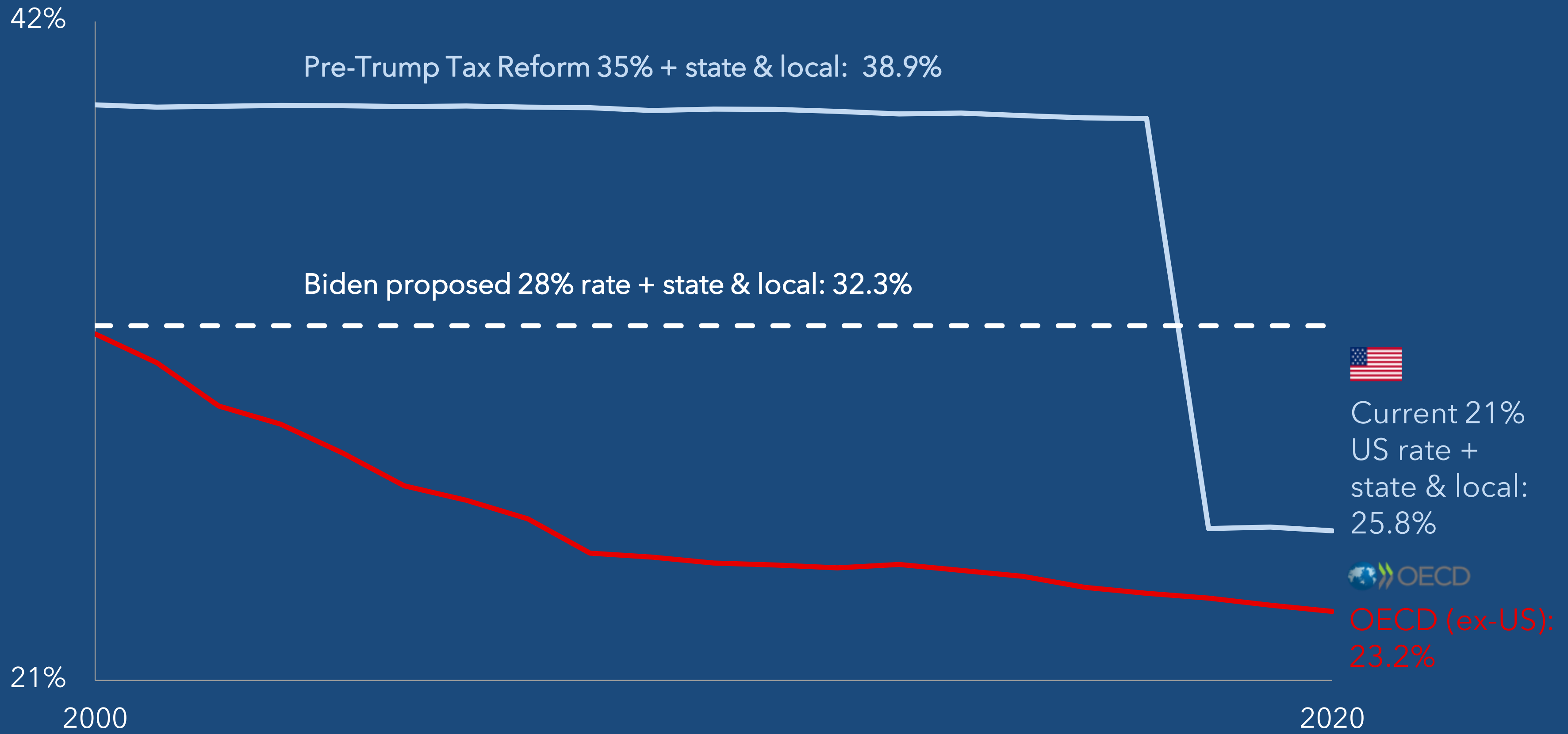
President Biden's Proposed Corporate Tax Changes

Tax Provision	Current	Proposed
Corporate tax rate	21%	28%
Minimum tax	N/A	15% on "book income" for companies with profits >$100 mm
Pass through entities	20% deduction of non-wage portion	Phase out deduction over $400 k income
Manufacturing	N/A	Establish manufacturing communities credit
Domestic manufacturing	N/A	10% credit for new investments
New market tax credit	Credit for private investment in distressed communities	Expand & make permanent
Financial risk fee	N/A	Applied for certain liabilities for financial institutions >$50 bn
Real estate	Like-kind exchanges, accelerated depreciation for rental housing	Eliminate tax preferences over $400 k of income
DTC prescription drug advertising	Fully deductible	Eliminate deduction
Affordable Care Act	N/A	Expand premium tax credit
Independent contractors	N/A	More stringent classification rules

Source: (1) Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Global Corporate Tax Policy

Prior to former President Trump's 2017 tax reform, the US had the highest corporate tax rate of the 37 countries in the OECD. President Biden's proposed increase from 21% to 28% would put the US well above the OECD average.



Source: (1) OECD. Tax rates include central and sub-central combined rates. OECD average excludes the US.

Industry Specific Tax Code Changes

President Biden's tax plan already has numerous industry specific proposals, many of which are likely to expand as the legislative process unfolds

Selected industry specific proposed corporate tax code changes

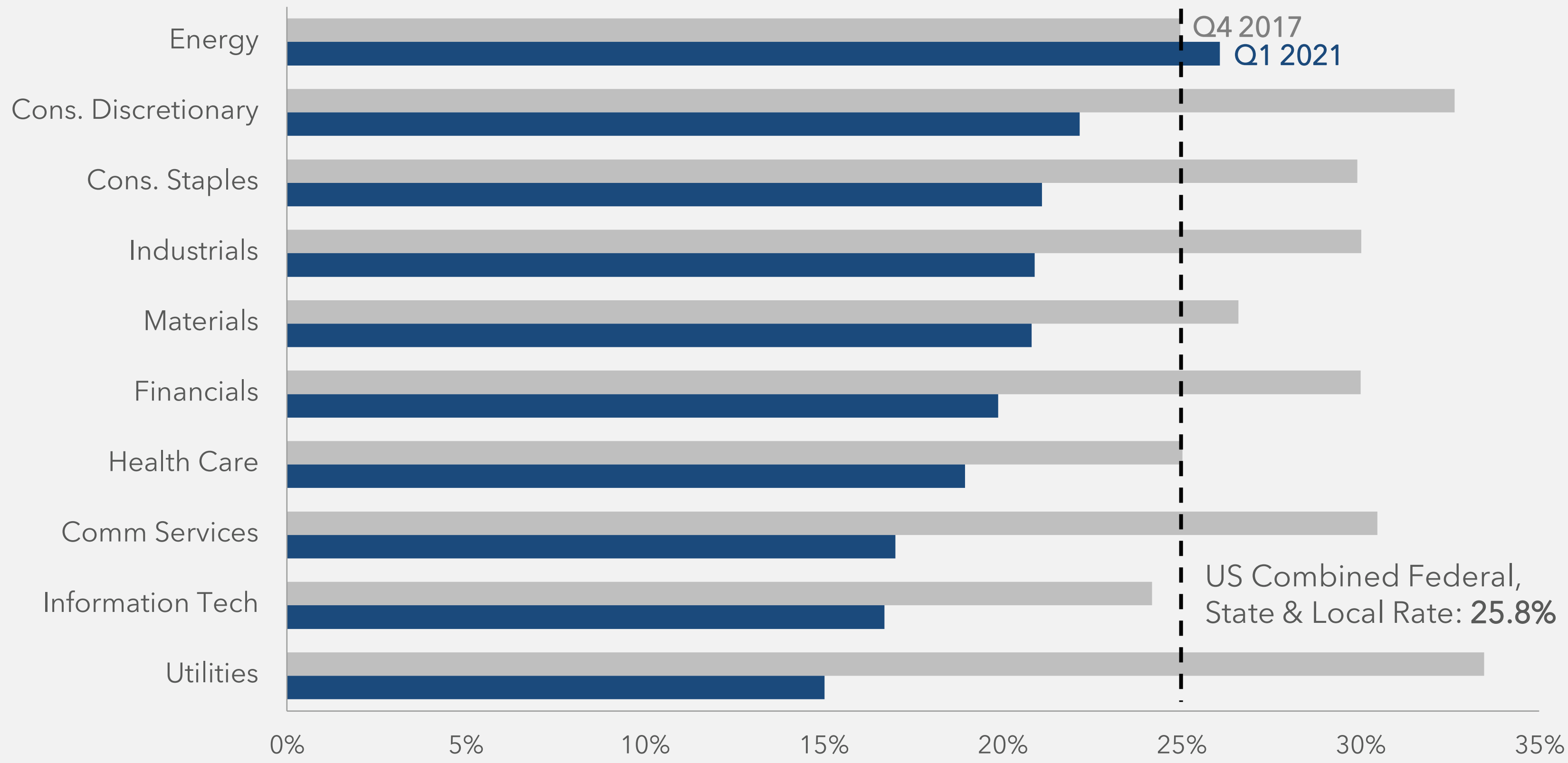
Energy	• Reinstate renewable energy investment tax credit • Enhance tax incentives for carbon capture, use and storage • New tax credits for deploying low-carbon technologies • Expand deductions for emissions-reducing investments in commercial buildings • Eliminate tax preferences for fossil fuels
Healthcare	• Eliminate deduction for prescription drug advertising • Incentives for domestic pharmaceutical production
Real Estate	• Eliminate like-kind exchanges, accelerated depreciation for rental housing and other tax preferences for real estate investors with over $400 k of income
Manufacturing / Supply Chain	• "Made in America" 10% tax credit for companies making investments that will create jobs in the US • Incentives to make critical products in the US • New manufacturing communities tax credit

Source: (1) Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Effective Tax Rates by Industry Segment

While the US tax rate is approximately 25.8% (including state & local), average effective rates differ significantly across industry groups based on available deductions and international tax provisions

Median effective combined corporate tax rates for S&P 500, by sector



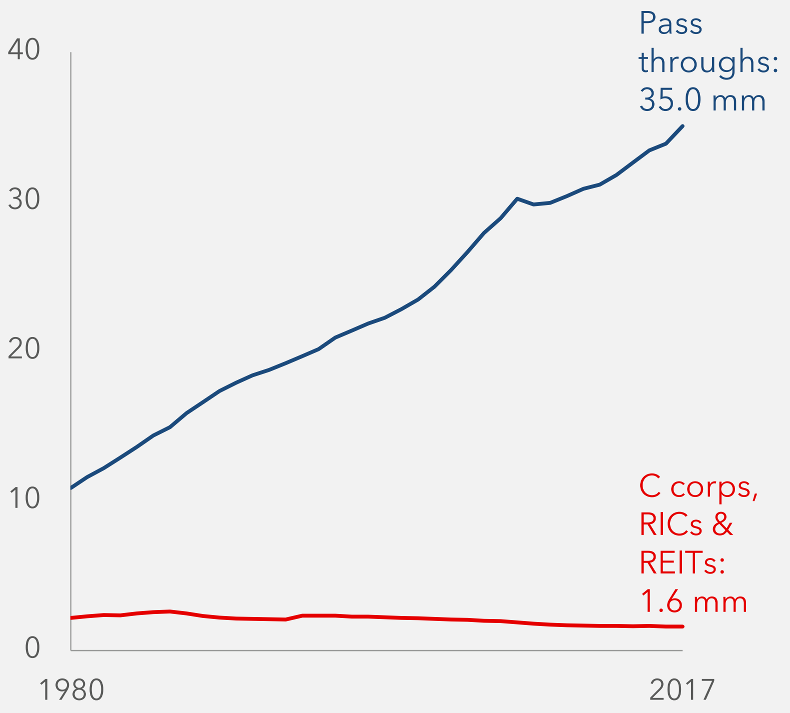
Source: (1) Bloomberg. Data as of March 4, 2021.

Pass Through Businesses

Pass through businesses represent a rapidly growing number of business tax filings and account for approximately 40% of US corporate tax receipts. President Biden's plan would phase out the existing 20% deduction on non-wage pass through earnings for individuals in the top tax bracket.

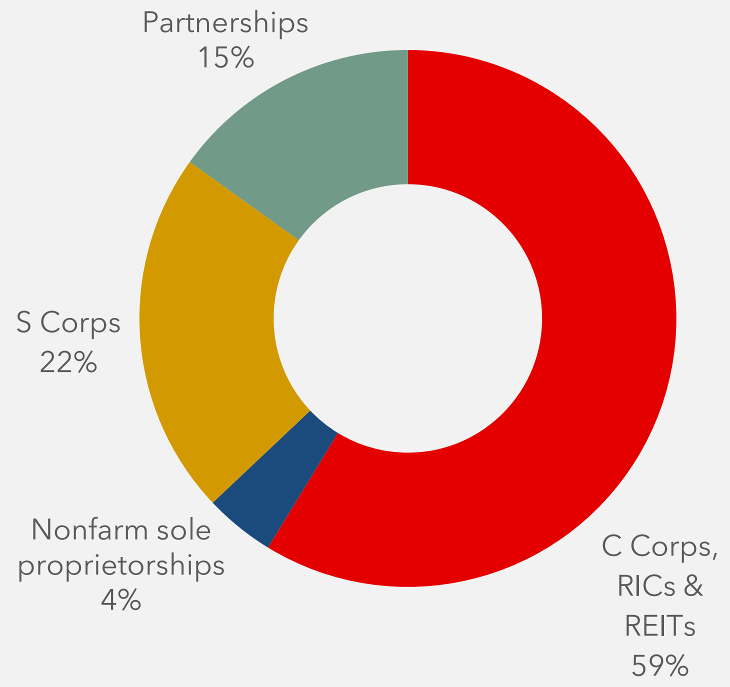
Business tax returns by business type

Millions of business tax returns



Sources of US business tax revenue

Share of business receipts by firm type, 2017



Source: (1-2) IRS. SOI Tax Stats. Table 1: Selected financial data on businesses. Pass throughs include nonfarm sole proprietorships, S Corps and partnerships.

Notable Expiring Corporate Tax Provisions

As part of the expected changes to the tax code over the next year, lawmakers may amend, delay or eliminate various provisions from President Trump's Tax Cuts & Jobs Act (TCJA) that are due to expire

Selected tax provisions due to expire

2021

- Change in **interest deduction** limitation from EBITDA to EBIT in 2022
- Beginning-of-construction date for increased credit for business **solar energy** property
- Beginning-of-construction date for **non-wind renewable power** facilities eligible for **production or investment credit**
- Credits for **qualified fuel cell motor vehicles, alternative fuel vehicle refueling property** and two-wheeled **plug-in electric vehicles**
- Incentives for **alternative fuel** and alternative fuel mixtures
- Second generation **biofuel** producer credit
- Increase in **coal excise tax** (Black Lung Disability Trust Fund)
- Upfront **R&D amortization**

2022

- **Highway** Trust Fund excise tax
- Leading **Underground Storage** Tank Trust Fund financing rate
- **Railroad** track **maintenance** credit
- Incentives for **biodiesel and renewable diesel**

2023

- Additional **Highway** Trust Fund excise tax rates
- **Airport and Airway** Trust Fund excise taxes
- Beginning-of construction date for qualified **carbon dioxide sequestration facilities**
- Beginning-of-construction date for increased credit for business **solar energy** property
- Waste **energy** recovery property qualifies for **energy investment tax credit**

2024

- Look-through rule for payments between **related controlled foreign corporations**
- Rate on modified taxable income and treatment of credits in the calculation of **base erosion minimum tax amount**
- Deduction percentage for **FDII** and **GILTI**
- **Qualified Business Income (QBI)** deduction
- Limit on **excess business losses** of non-corporate taxpayers
- **Empowerment zone** tax incentives
- Employer credit for **paid family and medical leave**
- Beginning-of-construction date for energy credit for **offshore wind facilities**
- Beginning-of-construction date for certain qualified **carbon dioxide sequestration** facilities

2025

- Additional first-year **depreciation** with respect to qualified property
- Election to invest capital gains in **opportunity zone**
- Disallow **active pass through losses** in excess of $250 k (for single filers)

2026

- Extension, expansion and phase down of **bonus depreciation**

Source: (1) PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021. JCT "Estimated Budge Effects of The Tax Cuts & Jobs Act."


US International
6. Tax Code Changes

Proposed US International Tax Changes

President Biden's Proposed International Tax Changes

Tax Provision	Current	Proposed
GILTI	Effective 10.5% rate	Replace with 21% minimum tax on country-by-country basis
Foreign-derived intangible income (FDII)	Effective 13.125% rate	Repeal FDII deduction (New announcement on March 31, 2021)
QBAI exemption	10% exemption for Qualified Business Asset Investment	Eliminate exemption
Global book income tax	N/A	Minimum 15% with foreign tax credit allotment
Allocation of interest expense*	Allowed on worldwide basis	Repeal worldwide allocation
Inversions	Discouraged via territorial system	Tighten rules
Offshoring manufacturing and services jobs	N/A	10% surtax on production overseas for sale back to US
Domestic manufacturing	N/A	10% credit for new investments that will create jobs in the US
Supply chain security	N/A	Incentives for making critical products in the US
Claw-backs	N/A	Return of public investments & tax benefits if production offshored

*Indicates provision is part of American Rescue Plan Act

Source: (1) Tax Foundation "An "Interest"ing Tax Hike in the COVID-19 Relief Proposal". Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021. President Biden's American Jobs Act Plan

"Made in America" Proposals

President Biden's tax plan includes numerous provisions focused on increasing investment in the US, reducing inversions and increasing US competitiveness

Selected proposed tax provisions

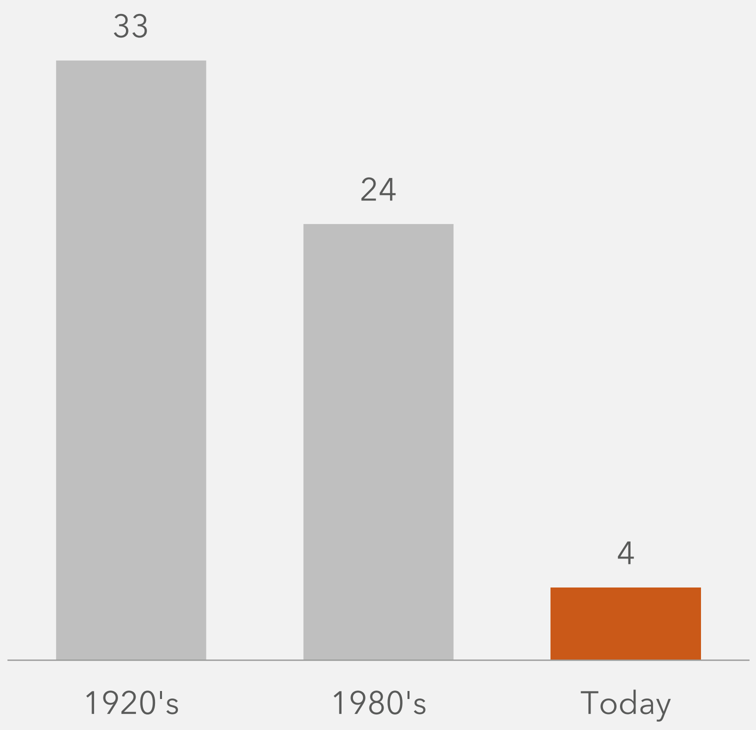
Incentives	Penalties
10% credit for investments in the US that will create jobs for American workers	10% offshoring tax penalty – surtax on US company producing overseas for sales back into the US (applicable on top of proposed 28% tax rate)
Incentives for making critical products in the US	Stronger anti-inversion regulations and penalties
Encourage pharmaceutical production in the US	Denying deductions for moving jobs / production overseas
New manufacturing communities tax credit	Required claw-back of public investments and tax benefits if production moves overseas

Source: (1) Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

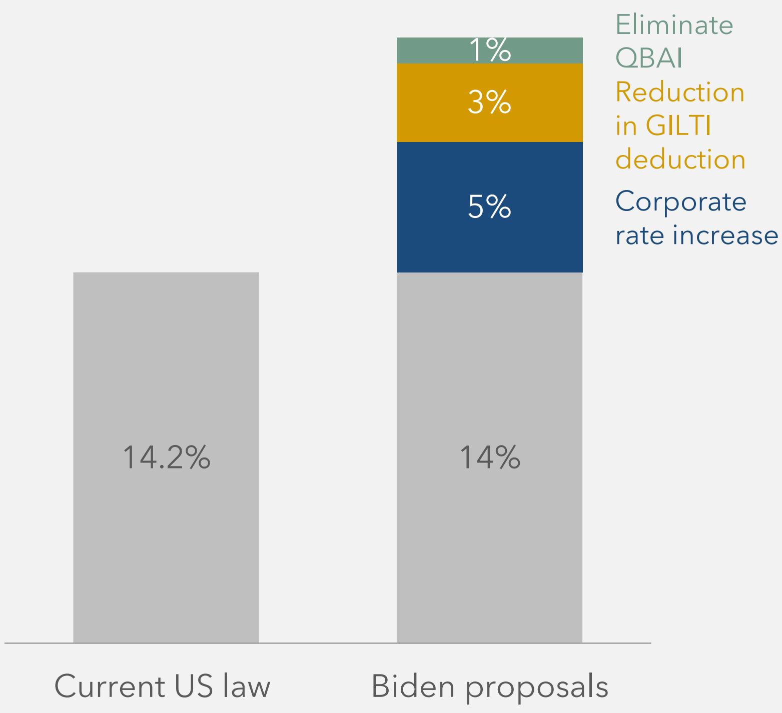
Changing Tax Systems

As part of the 2017 tax reform, the US joined the majority of countries globally in adopting a territorial tax system with anti-base erosion rules. One such rule that is fairly unique to the US system is the Global Intangible Low Tax Income (GILTI) provision. President Biden's proposed plan would significantly increase the amount of tax paid on foreign earnings by increasing rates and reducing exemptions.

Number of worldwide tax systems



Total tax rate on foreign income



Source: (1-2) Tax Foundation: "U.S. Cross-border Tax Reform and the Cautionary Tale of GILTI." Biden proposals based on example for a single foreign subsidiary in a jurisdiction with a 10 percent corporate income tax rate.

7. Global Tax Code Developments

BEPS 2.0

Over the last 40 years, countries around the world have been locked in a "race to the bottom" on corporate tax rates. As a result, over 135 countries are now working with the G20 and OECD on a Base Erosion and Profit Sharing (BEPS) initiative that would: (i) link global corporate taxation to transaction activity rather than domicile; and (ii) create a global corporate minimum tax rate.

OECD / G20
Base Erosion & Profit Sharing Initiative

Pillar 1

- Global agreement to expand taxing rights over profits of multi-national enterprises (MNEs)
- Establishes fixed return for marketing / distribution activities in a jurisdiction (regardless of domicile)
- Tax certainty via dispute prevention and resolution
- Could generate ~$100 bn / yr

A consensus-based agreement on both pillars is anticipated by mid-2021

Pillar 2

- Numerous provisions, still being negotiated, to reduce profit shifting between countries
- Aims to establish global minimum tax (likely ~12.5%)
- Potentially limit pooling to country-by-country basis
- Could generate $60-100 bn / yr

Source: (1) Bloomberg Tax: "The OECD's Digital Taxation Proposal: A Contradiction of the Original BEPS Project? The Tax Foundation: "Digital Tax Deadlock: Where do We Go From Here? (July 2020). TaxVox "OECD Pillar 2 Provides A Good Model for Biden US Worldwide Tax".

The original OECD / G20 BEPS Framework outlined **15 actions** to "tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment." Any country that joins the framework must implement the four minimum actions with implementation subject to peer review. Incorporating these actions requires numerous changes to national tax statutes and international tax treaties.

15 BEPS measures

Actions in red are mandatory for all collaborating nations

#1 Digitization challenges	#2 Hybrid mismatch arrangements	#3 Controlled Foreign Company	#4 Limit on interest deductions	#5 Harmful tax practices
#6 Prevention of tax treaty abuse	#7 Permanent establishment status	#8 Transfer pricing - intangibles	#9 Transfer pricing - risks & capital	#10 Transfer pricing - high-risk transactions
#11 BEPS data analysis	#12 Mandatory disclosure rules	#13 Country-by-country reporting	#14 Mutual agreement procedure	#15 Multilateral instrument

Digital Taxes

Policies for taxing the revenue of large multinational digital services companies have been debated for numerous years with global agreement extremely challenging. In response, dozens of countries and territories have moved forward with unilateral Digital Service Taxes (DSTs).

Countries <u>implementing</u> digital taxes

Country	Tax
Argentina	5% - 15% on gambling bets
Austria	5% of revenue from advertising
Costa Rica	Tax on income from tourist rental services
France	3% of revenue from advertising & data
Greece	Tax on income from short-term rentals in sharing economy
Hungary	7.5% of revenue from advertising
India	2% of revenue of e-commerce operators & suppliers
Indonesia	Revenue related to digital PE & e-commerce sales
Italy	3% of revenue from advertising & data
Kenya	Tax on income now applies to foreign online marketplaces
Malaysia	Tax on income now applies to foreign online marketplaces
Mexico	Tax on income now applies to foreign online marketplaces
Nigeria	Tax on revenue related to digital PE
Pakistan	5% of revenue from online advertising, ecommerce, digital content, data

Source: (1) KPMG. "Taxation of the Digitalized Economy – Development Summary."
Data updated as of March 11, 2021. PWC "BEPS 2.0: OECD Publishes blueprints and revised timing, leading France to resume its digital sales tax".

Digital Taxes

In June 2020, the USTR launched investigations into 10 countries' proposed DSTs which it saw as unfairly targeting US based multinationals. The resulting report found DSTs adopted by 6 countries (the UK, Austria, India, Italy, Spain and Turkey) create an unreasonable burden or restrict US commerce, prompting the US to consider imposing up to 25% tariffs on some goods produced by those countries. The proposed tariffs, adoptable under Section 301 of the Trade Act of 1974, are currently under review and subject to public comment through the end of April.

Countries implementing digital taxes

Country	Tax
Paraguay	15% on digital services by foreign suppliers net of VAT
Poland	1.5% on audiovisual communication services
Portugal	1% - 4% levy on audiovisual communication services
Sierra Leone	1.5% of turnover of all digital & electronic transactions
Spain	3% of revenue from advertising & data
Taiwan	Tax on income now applies to foreign online marketplaces
Tunisia	3% on sale of computer applications & digital services
Turkey	7.5% of revenue from advertising, content and paid services
UK	2% of revenue from internet & social media
Uruguay	Tax on income now applies to foreign online marketplaces
Vietnam	Tax on income now applies to foreign online marketplaces
Zimbabwe	5% tax on foreign ecommerce companies

Source: (1) KPMG. "Taxation of the Digitalized Economy – Development Summary."
Data updated as of March 11, 2021. PWC "BEPS 2.0: OECD Publishes blueprints and revised timing, leading France to resume its digital sales tax".

Digital Taxes

A number of additional countries, including Canada, are considering new digital taxes at this time.

Countries considering digital taxes

Country	Tax
Belgium	3% of revenue
Brazil	1% - 3% of revenue from advertising & data
Canada	3% of revenue from advertising & data
Czech Republic	5% of revenue from advertising, data & online marketplaces
Israel	3% or 5% modelled on French tax on advertising & data
Latvia	3% of revenue
Norway	No firm proposal
Slovakia	No firm proposal
Slovenia	No firm proposal
Thailand	5% of revenue from e-commerce (advertising, gaming & shopping)

Source: (1) KPMG. "Taxation of the Digitalized Economy – Development Summary." Data updated as of March 11, 2021.

Financial Transaction Taxes

Financial transaction taxes (FTTs) have become increasingly common internationally, with over three dozen countries already implementing FTTs of various types. While not included in his proposed tax code changes, President Biden has voiced general support for FTTs in the past.

Countries with implemented FTTs

Argentina	India	Puerto Rico
Belgium	Ireland	Romania
Brazil	Italy	Senegal
British Virgin Islands	Kenya	Singapore
Costa Rica	Kuwait	South Africa
China	Lebanon	South Korea
Cyprus	Malaysia	Switzerland
Egypt	Malta	Taiwan
Ethiopia	Nigeria	Thailand
Finland	Pakistan	Trinidad & Tobago
France	Panama	Ukraine
Gabon	Peru	UK
Germany	Philippines	Venezuela
Hong Kong	Poland	

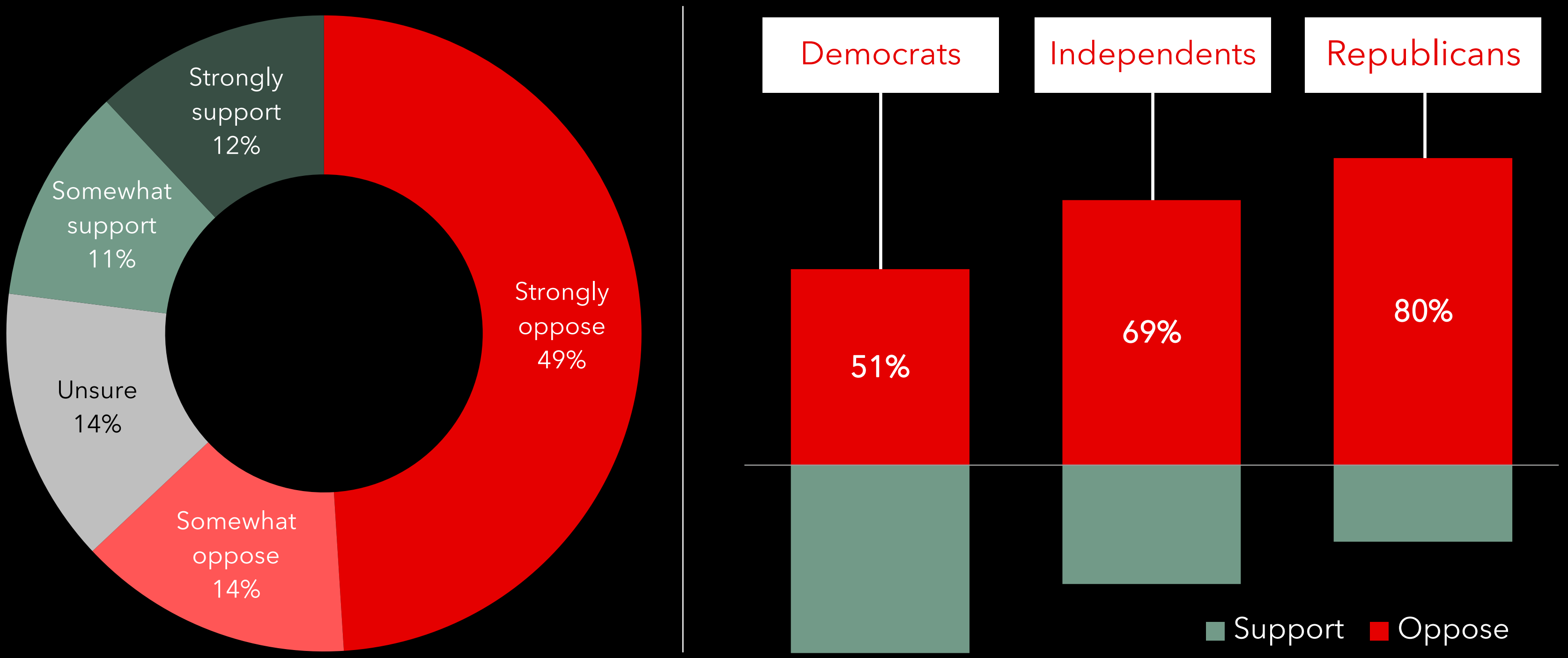
4 types of transaction taxes

1. **Financial Transaction Tax (FTT)**
   A tax on buying and selling a stock, bond, or other financial contract like options and derivatives
2. **Securities Transaction Tax (STT)**
   A tax levied at the time of purchase and sale of securities listed on stock exchanges
3. **Stamp Duty**
   A tax on a variety of legally recorded documents (i.e., the transfer of homes, buildings, copyrights, land, patents, and securities)
4. **Transfer Tax**
   A tax levied on the transfer of ownership or title to property from one individual or entity to another

Source: Bloomberg Government. Center for Economic and Policy Research. Data as of September 21, 2020. Excludes US $0.0042 charge for each round turn security futures transaction.

On March 18th, a group of Democratic Senators reintroduced the "Wall Street Tax Act" which would add a 0.1% tax on the sale of stocks, bonds and derivatives. While the proposal would raise up to $777 billion over 10 years, financial transaction taxes generally are strongly opposed by both Republican and Democratic voters.

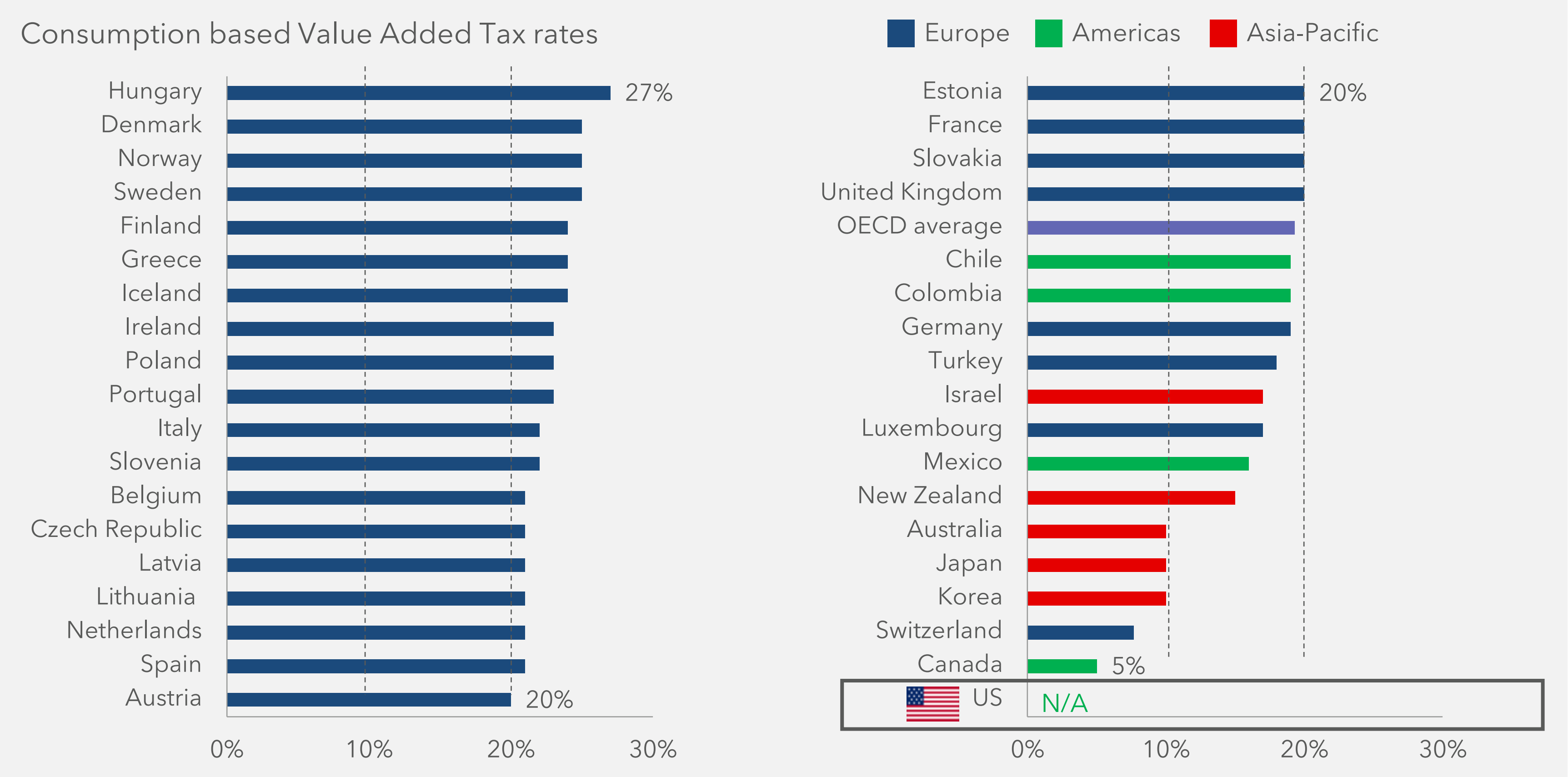
Voters support / opposition of a Financial Transaction Tax (FTT)



Source: (1-2) Teneo. US Chamber of Commerce "Voters' Voice: Financial Transaction Tax". Survey of 2,000 likely voters conducted February 23-25, 2021.

Consumption Based Value Added Taxes (VAT)

The United States is the only one of 37 countries in the OECD to not employ a federal consumption-based VAT, instead relying on lower retail sales taxes implemented at a state and local government level. With consumer spending accounting for nearly 70% of US GDP, a consumption based VAT has long been a “third rail” in Washington and is highly unlikely to be part of potential US tax code changes in Q4 2021.



Source: (1) OECD (2020), Consumption Tax Trends 2020 - VAT/GST and Excise Rates, Trends and Policy Issues. The OECD average is unweighted.

8. Climate Related Tax Code Changes

Proposed Climate Related Tax Changes

Corporate

Tax Provision	Current	Proposed
Low-Carbon manufacturing	N/A	New tax credits for low-carbon tech
Renewable energy investment tax credit	N/A	Reinstate
Emission reductions	Per square foot deductions for energy efficiency in commercial buildings	Expand deductions for emissions-reducing investments in commercial buildings
Carbon capture	Per-ton tax credit for carbon capture	Expand section 45Q tax credit for carbon capture, use and storage (refundable, easier to claim)
Fossil Fuels	Various subsidies for domestic production	Eliminate tax preferences

Individual

Tax Provision	Current	Proposed
Residential energy efficiency	STAR credits	Reinstate tax credits
Electric-vehicles	Up to $7,500 credit for buying qualifying new electric-vehicle	Restore full credit targeted to middle income consumers

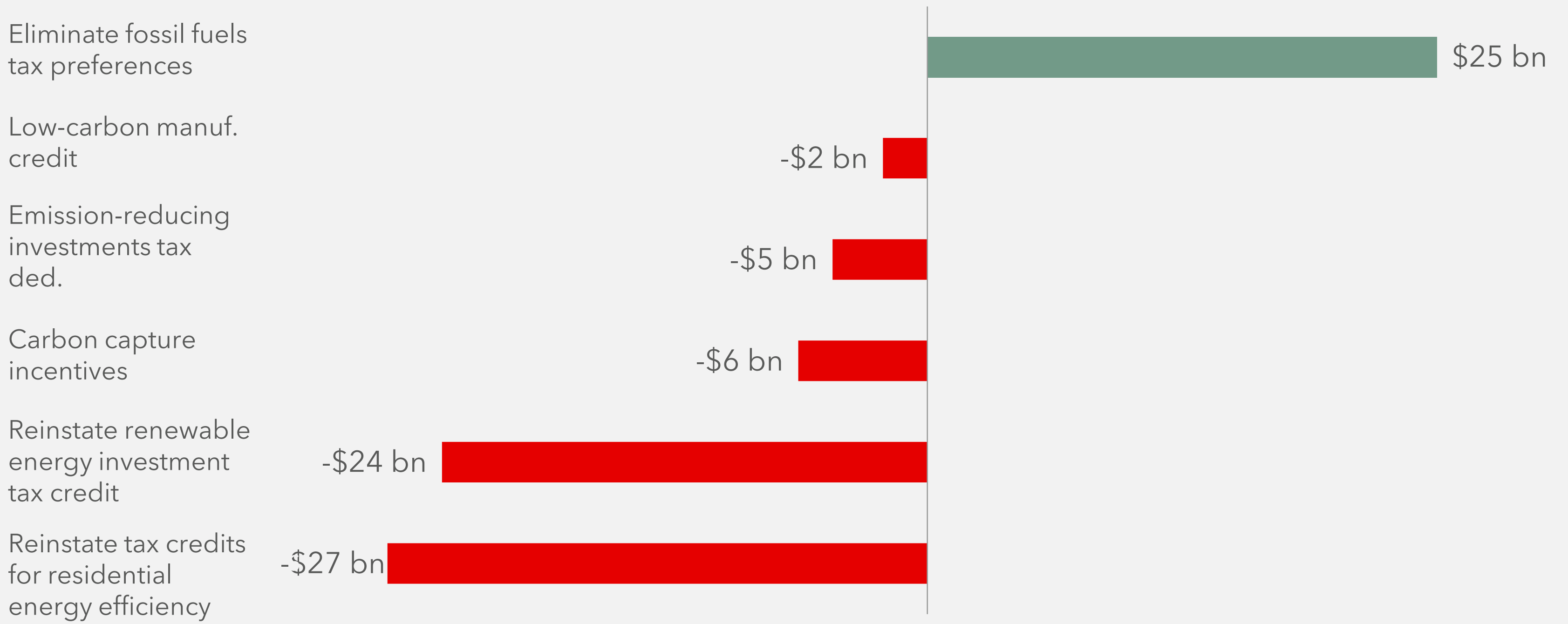
Source: (1) Tax Policy Center "TPC Finds the Ways & Means Pandemic Relief Plan Mostly Helps Low and Moderate Income Households, But Higher Income Families Benefit as Well", Howard Gleckman. Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021. Joebiden.com "A Tale of Two Tax Policies: Trump Rewards Wealth, Biden Rewards Work."

President Biden’s Green Agenda

President Biden has included a "light green" overlay on every aspect of his political platform and will use the 2022 budget and tax process to push those proposals even further. In addition to eliminating numerous credits and deductions for fossil fuel production, look for new corporate and individual tax incentives to invest in cleaner energy production and use.

Climate related proposed tax provisions

Estimated Revenue Impact of climate related proposed tax provisions, 2021-2030, USD, Bn

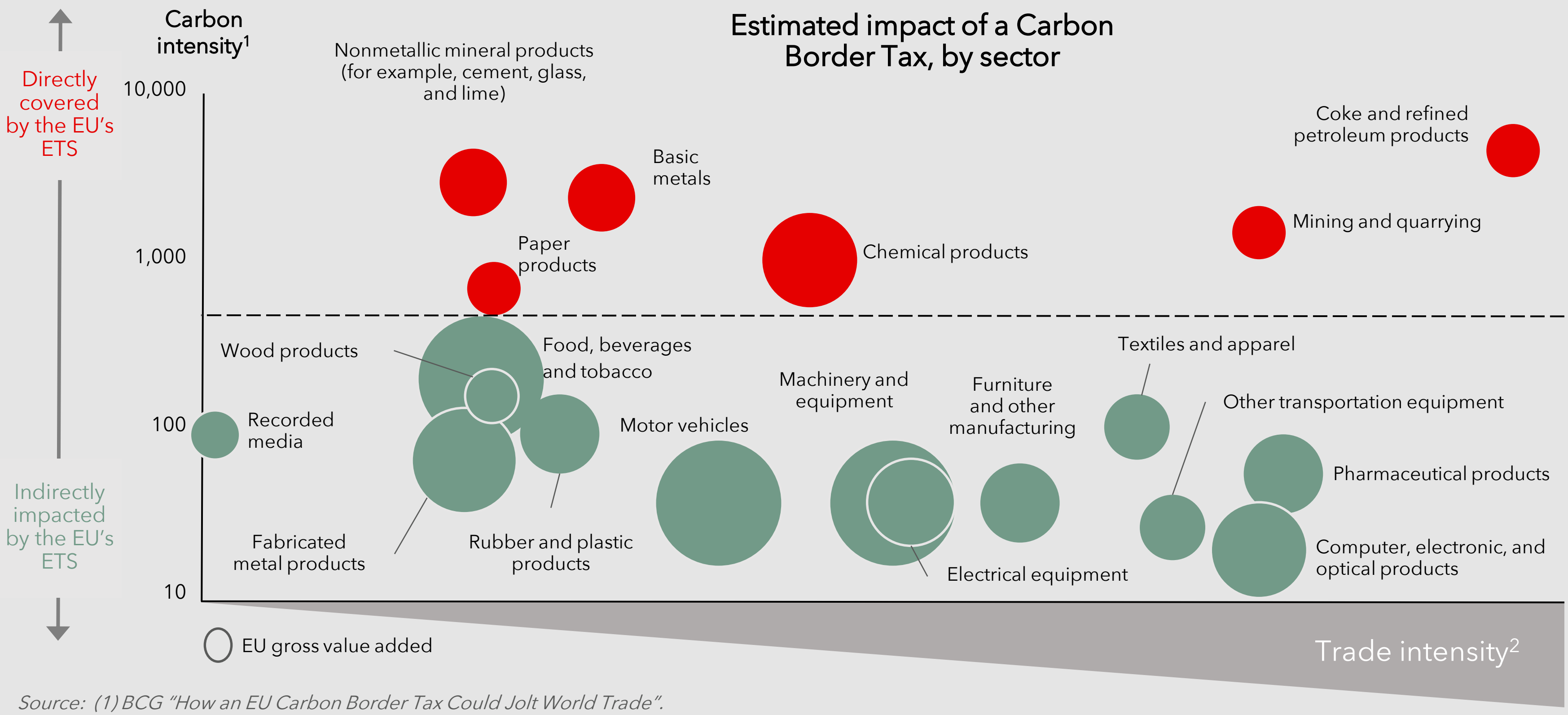


Source: (1) Tax Policy Center. "An updated analysis of former Vice President Biden's Tax Proposals". Static scoring only.

Carbon Border Taxes

By mid-2021, the EU is expected to unveil its carbon border adjustment mechanism which would prevent "carbon leakage" by charging a carbon price on certain imports from outside the EU. The impact of such a carbon border tax would be felt unevenly across sectors based on carbon intensity and trade intensity. While President Biden has embraced the concept of carbon border adjustments, they are not a part of his 2021 tax plan and his Climate Envoy, John Kerry, has expressed concerns over unilateral EU implementation.

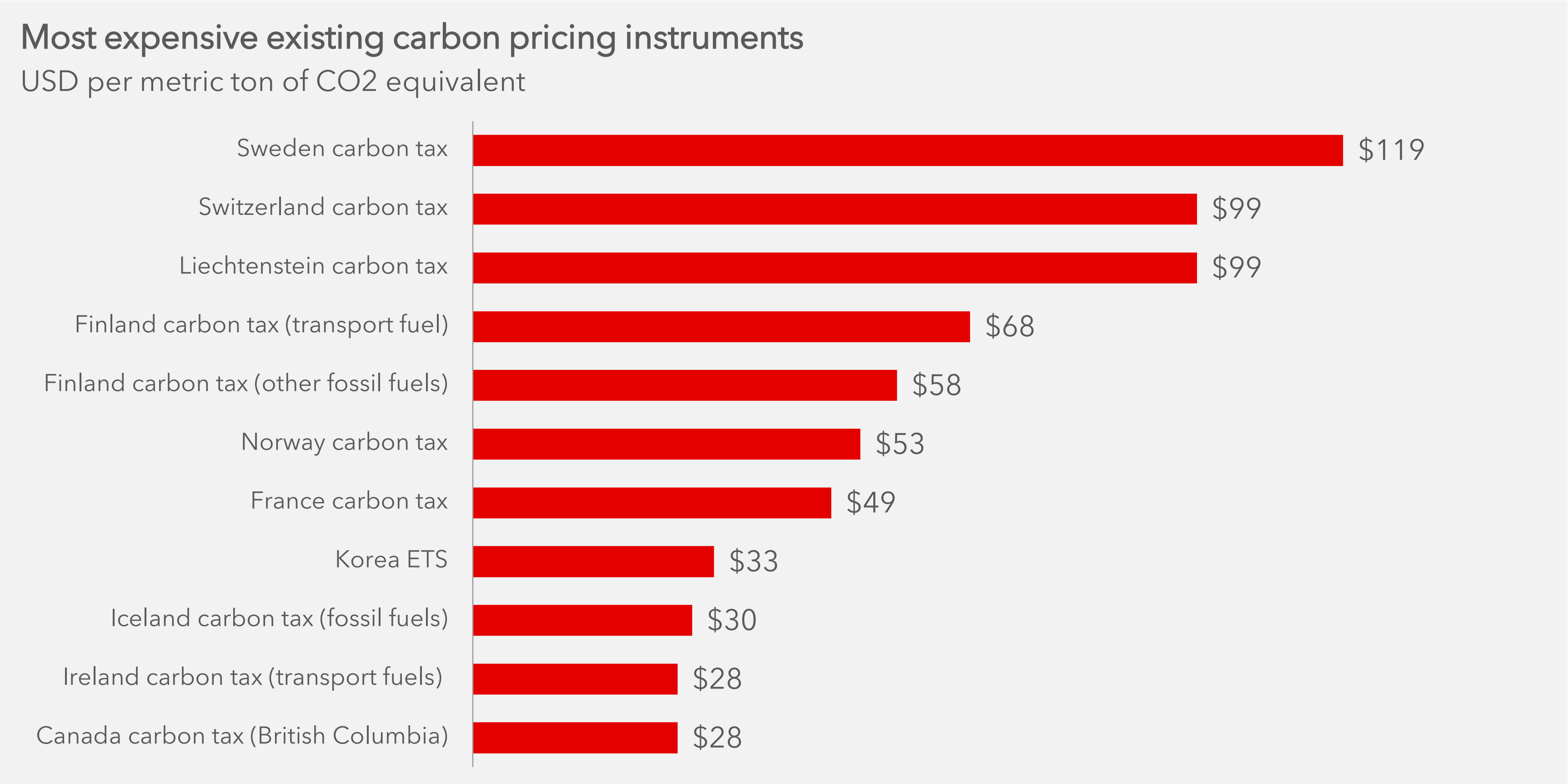
Estimated impact of a Carbon Border Tax, by sector



Source: (1) BCG "How an EU Carbon Border Tax Could Jolt World Trade".
Note: EU = European Union. ETS = Emissions Trading System. NACE is the statistical classification of economic activities in the European Community.
This assessment is based on mining, quarrying, and manufacturing categories as defined in NACE.
1Carbon intensity is defined as emissions as measured in metric tons of CO2 equivalents, divided by gross value added.
2Trade intensity is defined as the value of imports plus exports, divided by value of turnover plus imports.

Domestic Carbon Taxes

In 1990, Finland became the first country to introduce a carbon tax. Today, numerous countries have legal, tax and regulatory structures that tax fossil fuels and other high carbon emitting industries. President Biden's tax proposal would remove existing subsidies for domestic fossil fuel production while providing credits and deductions for carbon capture and use of green technology.



Source: (1) Statista. World Bank; Navigant Consulting; International Carbon Action Partnership. Data as of April 2020. Implemented and scheduled carbon pricing instruments.


Individual Tax
Code Changes
9.

Proposed Individual Tax Changes

President Biden's Proposed Individual Tax Changes

Tax Provision	Current	Proposed
Tax rate above $400 k income	37%	39.6%
Itemized deductions above $400 k income	No overall limitation on itemized deductions; SALT cap at $10 k	Cap benefit at 28% of value; Restore Pease limit on itemized deductions
Long term capital gains & qualified dividends	20% top rate	Ordinary tax rate for income above $1 million
Unrealized capital gains at death	Generally exempt	Tax as ordinary income
Carried Interest	20% rate on carried interest	Tax as ordinary income
Qualified business income deduction	Up to 20% of QBI + 20% REIT dividends & PTP income	Phase out after $400 k income
Retirement credits	N/A	Automatic IRAs; small business start-up credit
IRA deductibility	Deduction phased out Between $65k and $75k AGI if covered by work plan	Replace with 26% refundable credit

Source: (1) Tax Policy Center "TPC Finds the Ways & Means Pandemic Relief Plan Mostly Helps Low and Moderate Income Households, But Higher Income Families Benefit as Well", Howard Gleckman. Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Proposed Individual Tax Changes

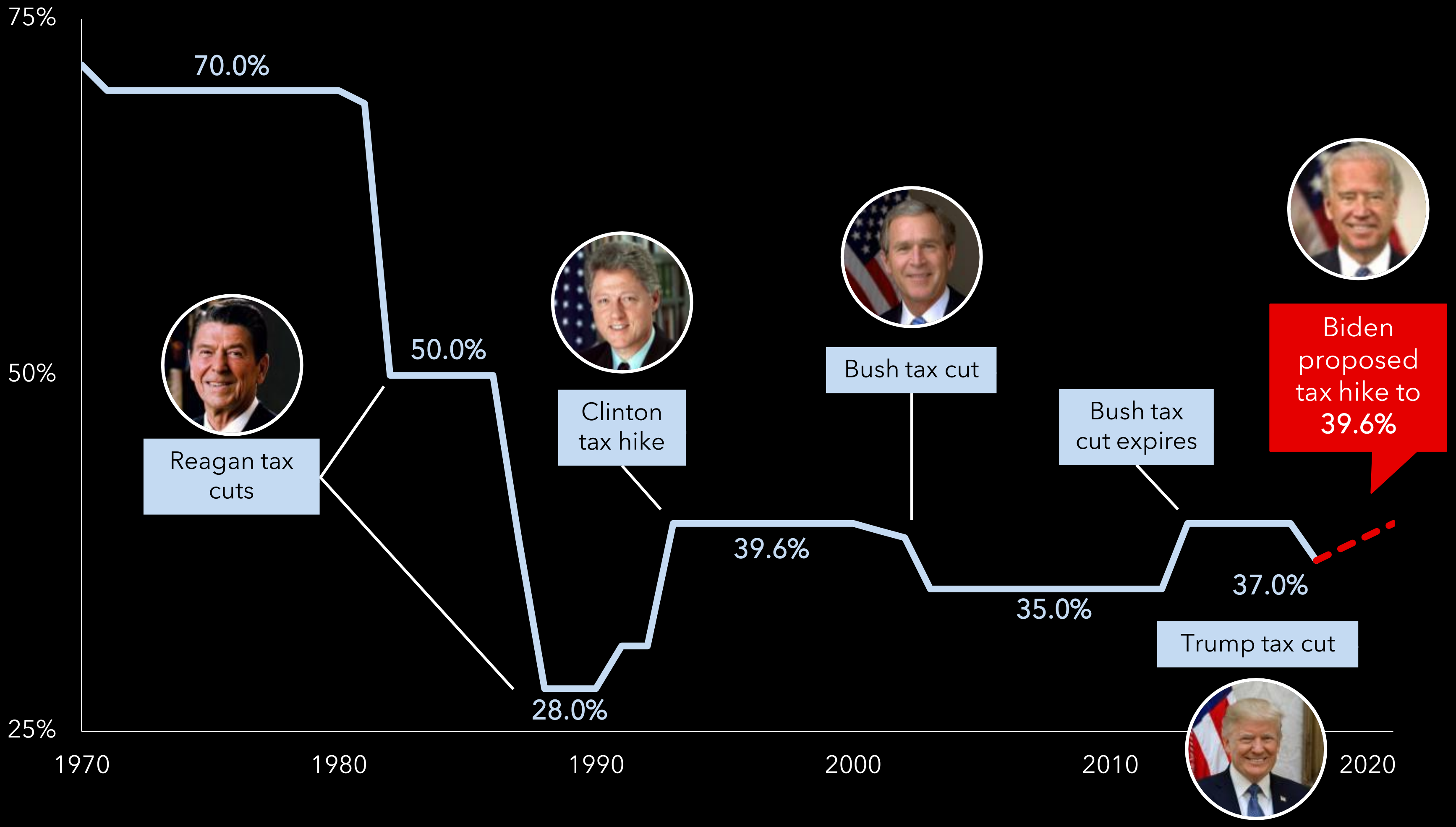
President Biden's Proposed Individual Tax Changes

Tax Provision	Current	Proposed
Estate tax	$11.6 million exemption; 40% top rate	$3.5 million exemption; 45% top rate
Renters' credit	N/A	Provide refundable credit
First time homebuyers	N/A	$15,000 refundable credit
Old-Age, Survivors & Disability Insurance payroll tax	12.4% Social Security tax applies to annual adjusted wage base limit	Apply payroll tax to income above $400 k (Does not qualify for budget reconciliation)
Earned Income Tax Credit*	$538 for childless adults	$1,500 for childless adults; expanded eligibility
Child Care Tax Credit*	Up to $2,000	Up to $3,600 under age 6 / $3,000 age 6-17
Child and Dependent Care Tax Credit*	Max credit rate 30%	$8,000 max value; 50% refundability
Family caregivers for those with physical and cognitive needs	N/A	Up to $5,000
Forgiven student loans	N/A	Exempt from taxable income

*Indicates provision is part of American Rescue Plan. Biden proposal may make change under American Rescue Plan permanent.

Source: (1) Tax Policy Center "TPC Finds the Ways & Means Pandemic Relief Plan Mostly Helps Low and Moderate Income Households, But Higher Income Families Benefit as Well", Howard Gleckman. Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update". PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021.

Top US individual tax rate since 1970



Source: (1) Bloomberg. "Biden's Likely Tax Wins Are Personal-Rate Hikes, Audits of Rich" Data as of March 24, 2021.

Top Individual Tax Brackets Likely to Reset Higher

Current law individual tax brackets

Biden's tax plan would increase the top rate to **39.6%** for individuals earning > $400k

Single US filer tax rates	Joint US filer tax rates	
Over $523,601	Over $628,301	37%
$209,426 - $523,600	$418,851 - $628,300	35%
$164,926 - $209,425	$329,851 - $418,850	32%
$86,376 - $164,925	$172,751 - $329,850	24%
$40,526 - $86,375	$81,051 - $172,750	22%
$9,951 - $40,525	$19,901 - $81,050	12%
Up to $9,950	Up to $19,900	10%

Source: (1) The Tax Foundation.

Notable Expiring Individual Tax Provisions

As part of the expected changes to the tax code over the next year, lawmakers may amend, delay or eliminate various provisions from President Trump's Tax Cuts & Jobs Act (TCJA) that are due to expire

Selected tax provisions due to expire

2021

- Credits for residential and certain non-business **energy property**
- Credit for construction of new **energy efficient homes**
- Credit for **health insurance** costs for eligible individuals
- Premiums for **mortgage insurance** deductible as qualified residence interest

2023

- Credit for **residential energy** property

2025

- TCJA **income bracket rates** sunset
- **Child care tax credit** modifications
- Increase exemption amount and phase-out threshold for **individual AMT**
- **SALT** deduction limit
- Increase individual **standard deduction**
- Suspension of **miscellaneous itemized** deduction & limitation on **itemized deductions**
- Increased contributions to **ABLE** accounts and rollovers from **529s** to ABLE Accounts
- Tax exemption for **student loan** discharges on account of death or disability
- Suspension of certain **expense reimbursements**
- Reduced limit on deduction for **qualified residence interest**
- Discharge of i**ndebtedness on principal residence** excluded from gross income
- Increased percentage limitation on **cash contributions to public charities**
- Increase in **estate / gift exemption**
- Disallow **active pass through losses** in excess of $250 k (for single filers)

2029

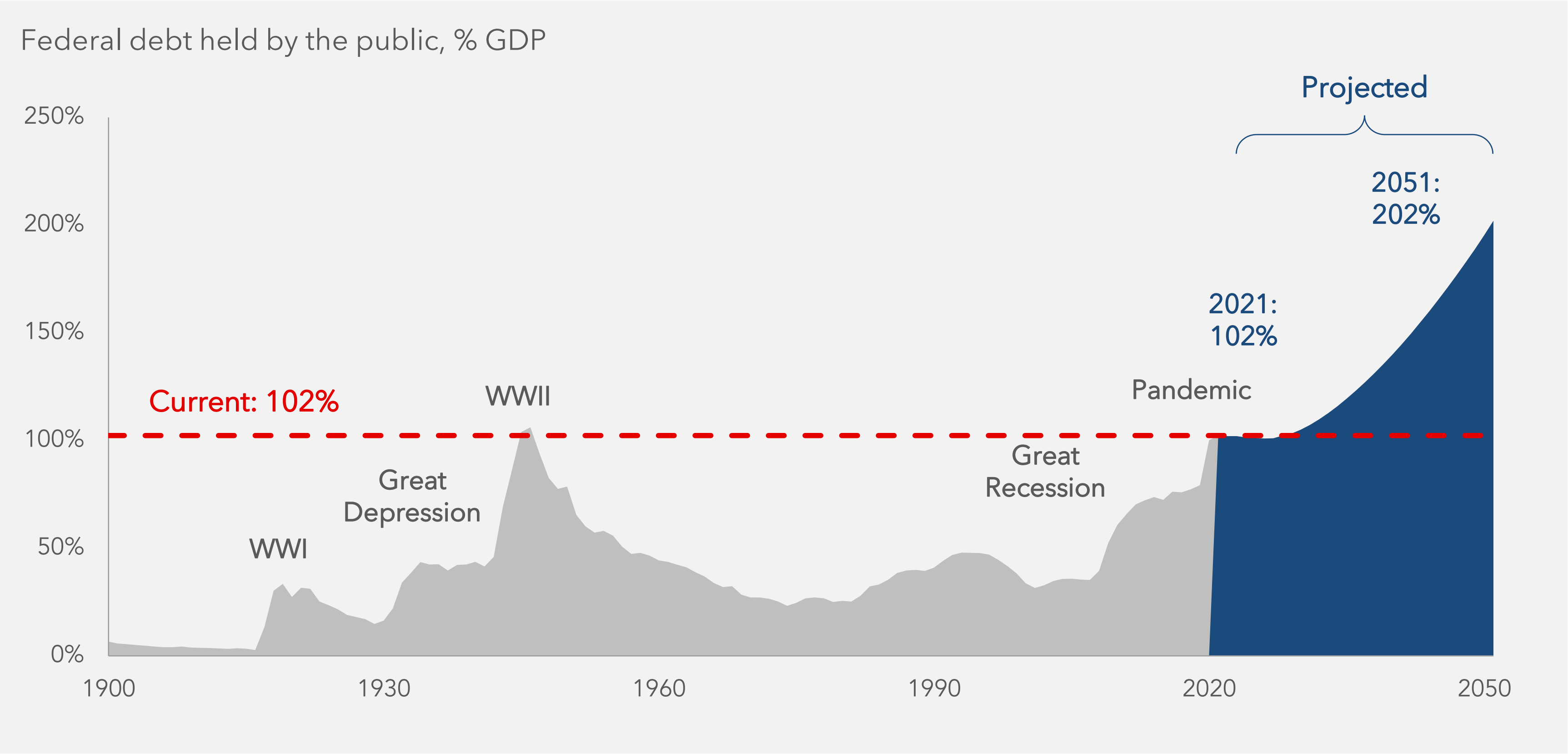
- Specified **health insurance** policy fee
- Self-insured **health fee**

Source: (1) PWC "2021 Tax Policy Outlook: The Changing Horizon" January 2021. JCT "Estimated Budge Effects of The Tax Cuts & Jobs Act."


10.
US Debt & Deficits

US Debt & Deficits Rising

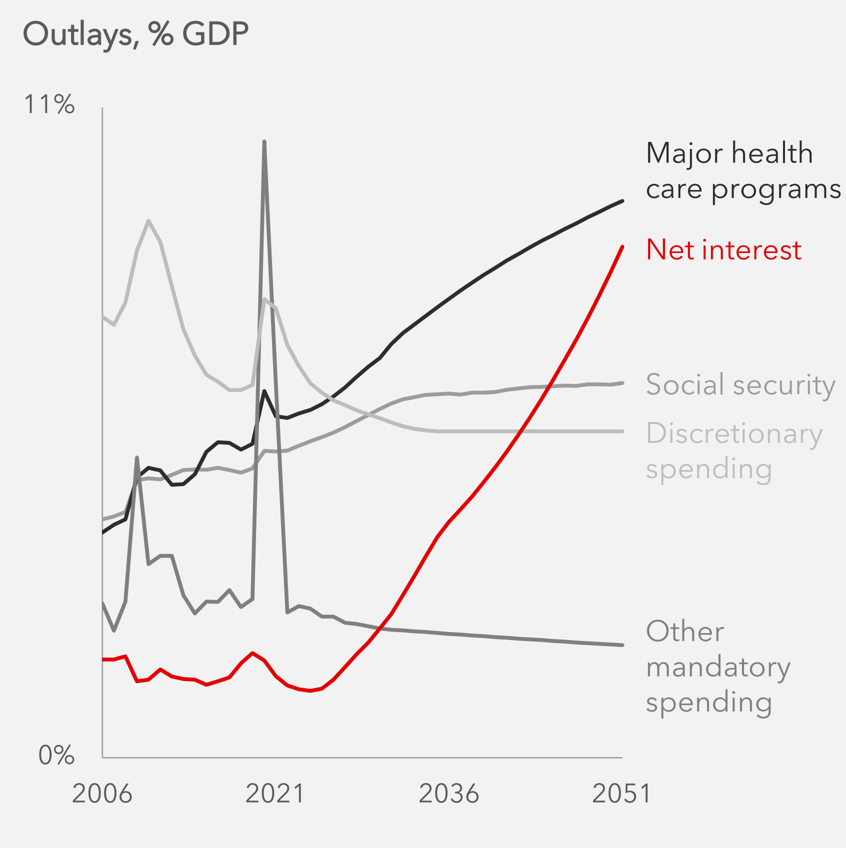
According to a recent report from the Congressional Budget Office (CBO), US Debt to GDP will surge from approximately 80% at the end of 2019 to over 100% in just two years, and is expected to reach over 200% by 2051. Importantly, these projections do <u>not</u> include the $1.9 trillion COVID stimulus bill passed in March or the expected tax code changes and infrastructure spending expected later this year.



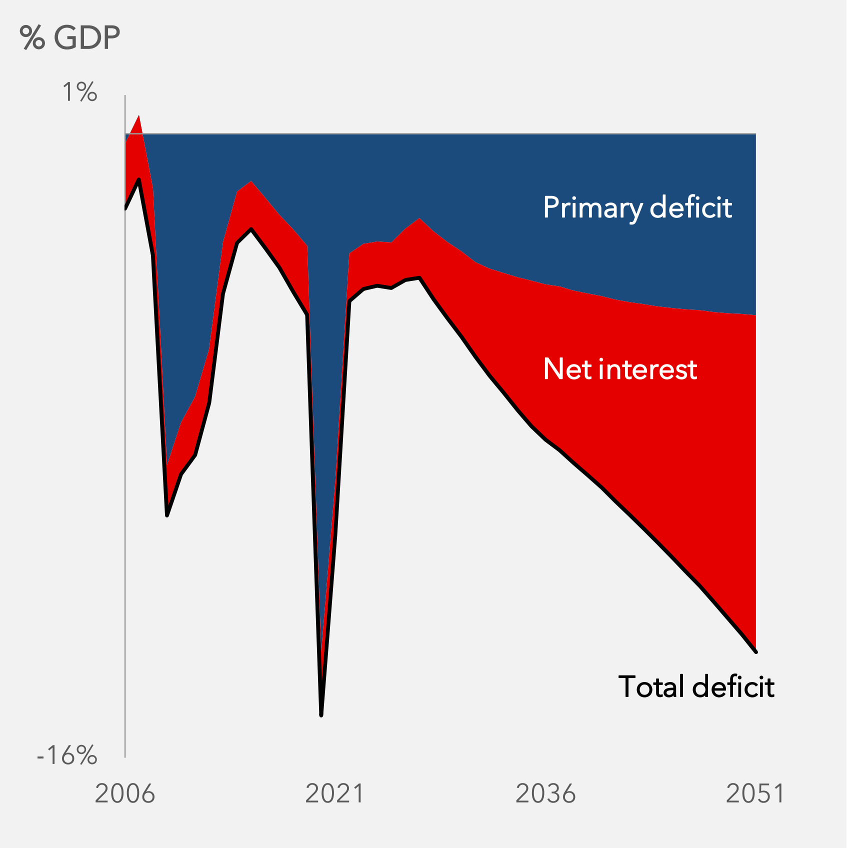
Source: (1) CBO. The 2021 Long-Term Budget Outlook. March 2021.

Interest Payments Dominating US Deficits

According to CBO projections, US net interest expense will start to steadily increase in 2025 and will more than triple over the following two decades



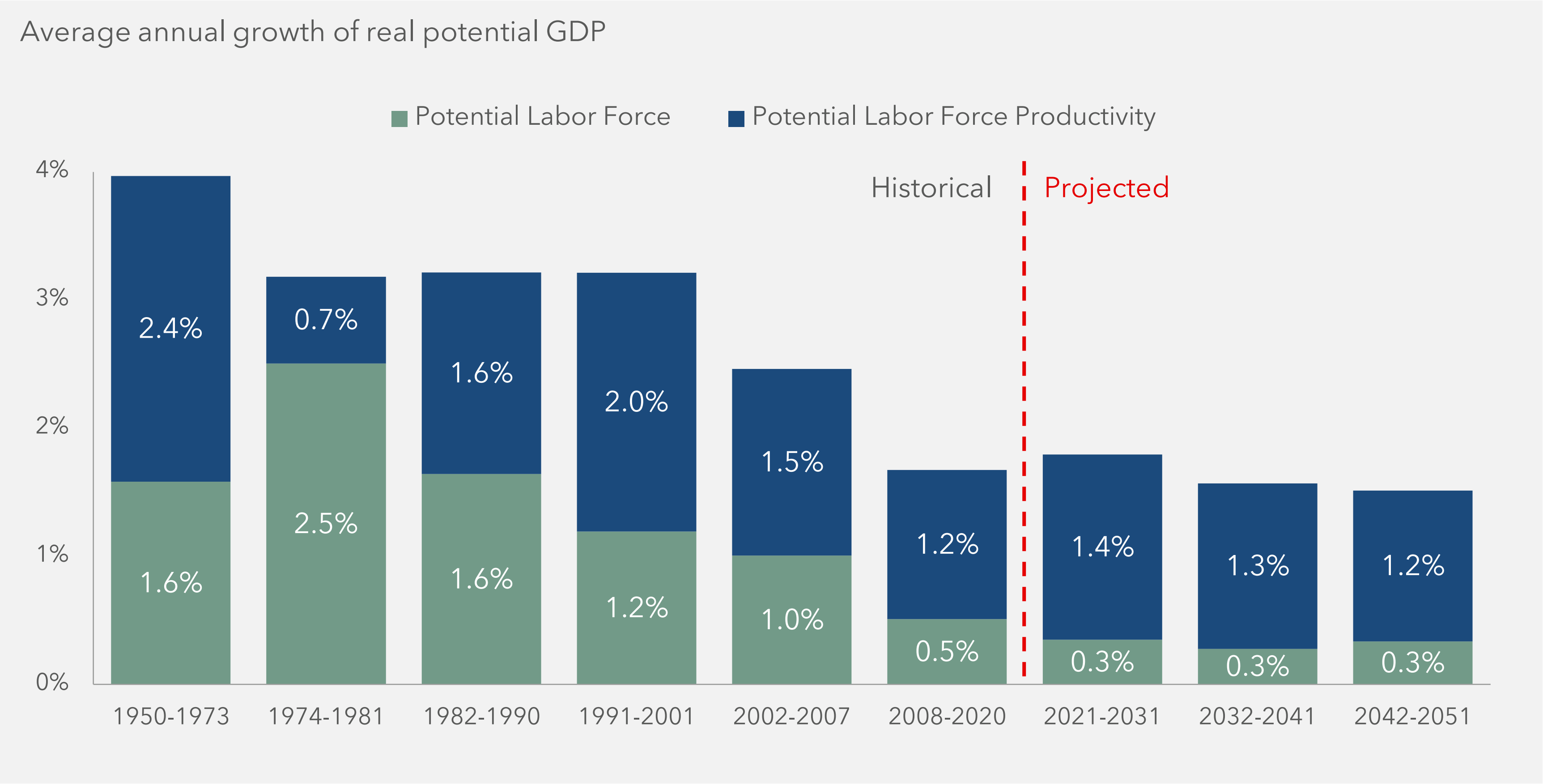
Most of the growth in total deficits between 2030 and 2050 is expected to come from increases in net interest spending



Source: (1-2) CBO. The 2021 Long-Term Budget Outlook. March 2021.

Lower Forecast for Future US GDP

The CBO is also projecting longer term US growth at rates well below the prior 70 years due to numerous structural headwinds, including: aging demographics, rising debt burdens and declining productivity



Source: (1) CBO. The 2021 Long-Term Budget Outlook. March 2021.

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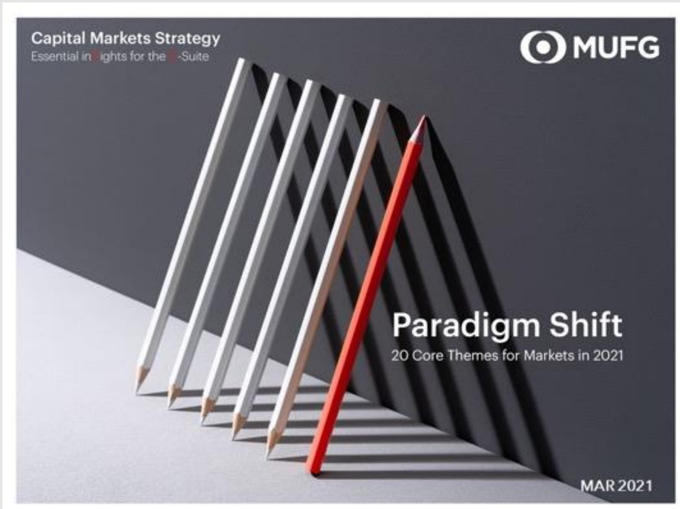

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