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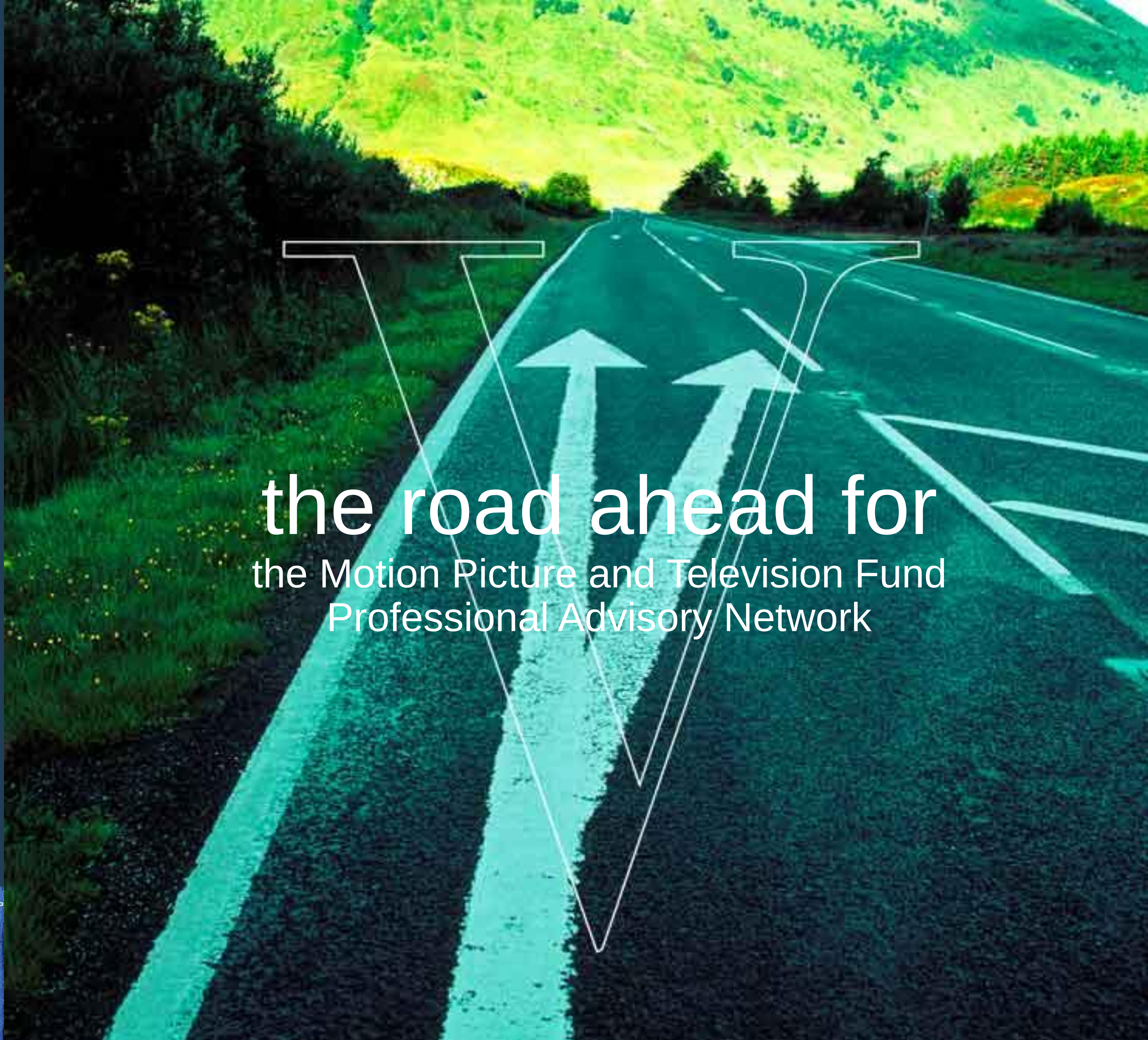
Federal Election and Tax Policy Outlook 2012 presented to the Motion Picture and Television Fund Professional Advisory Network

AUGUST 15, 2012



the road ahead for

the Motion Picture and Television Fund Professional Advisory Network

Agenda

- Part I: Federal Election Outlook 2012, presented by The Honorable Bart Stupak and Rob Smith

- Part II: Tax Policy Outlook 2012, presented by Samuel Olchyk

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Federal Election Outlook 2012

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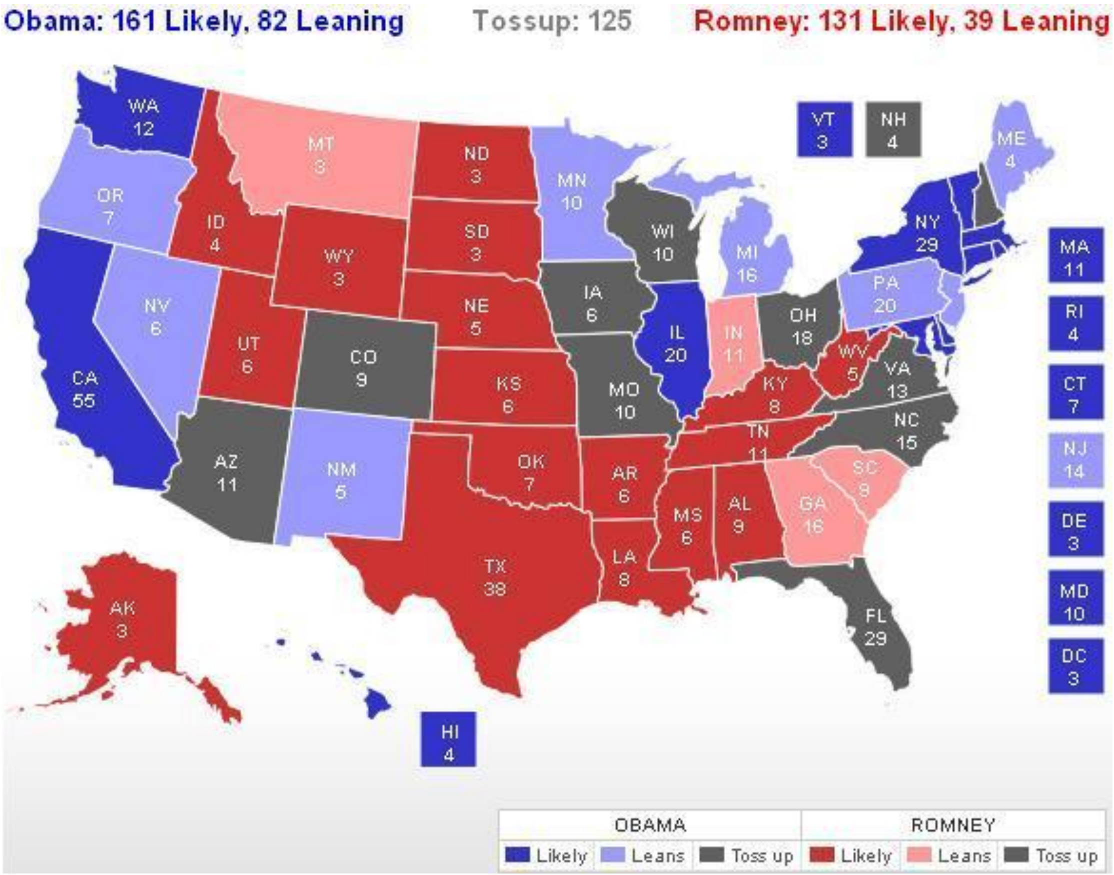
Presidential Election – Electoral Map



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The Paul Ryan Factor

- Pros/cons
- Effect on House races
- Wisconsin in play?

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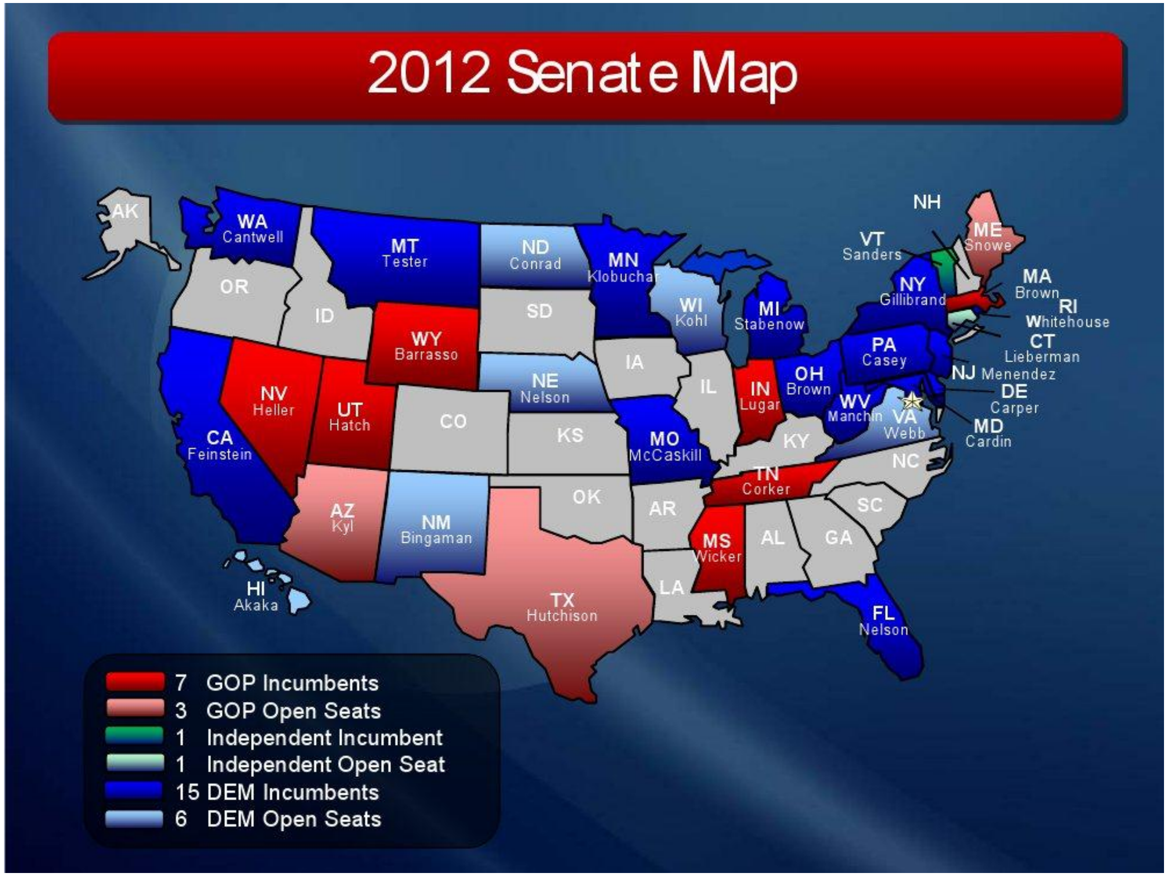
Competitive Senate Races



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Senate Races to Watch

- Arizona
- Florida
- Nevada
- Missouri
- Montana
- Nebraska
- New Mexico
- North Dakota
- Ohio
- Virginia
- Wisconsin

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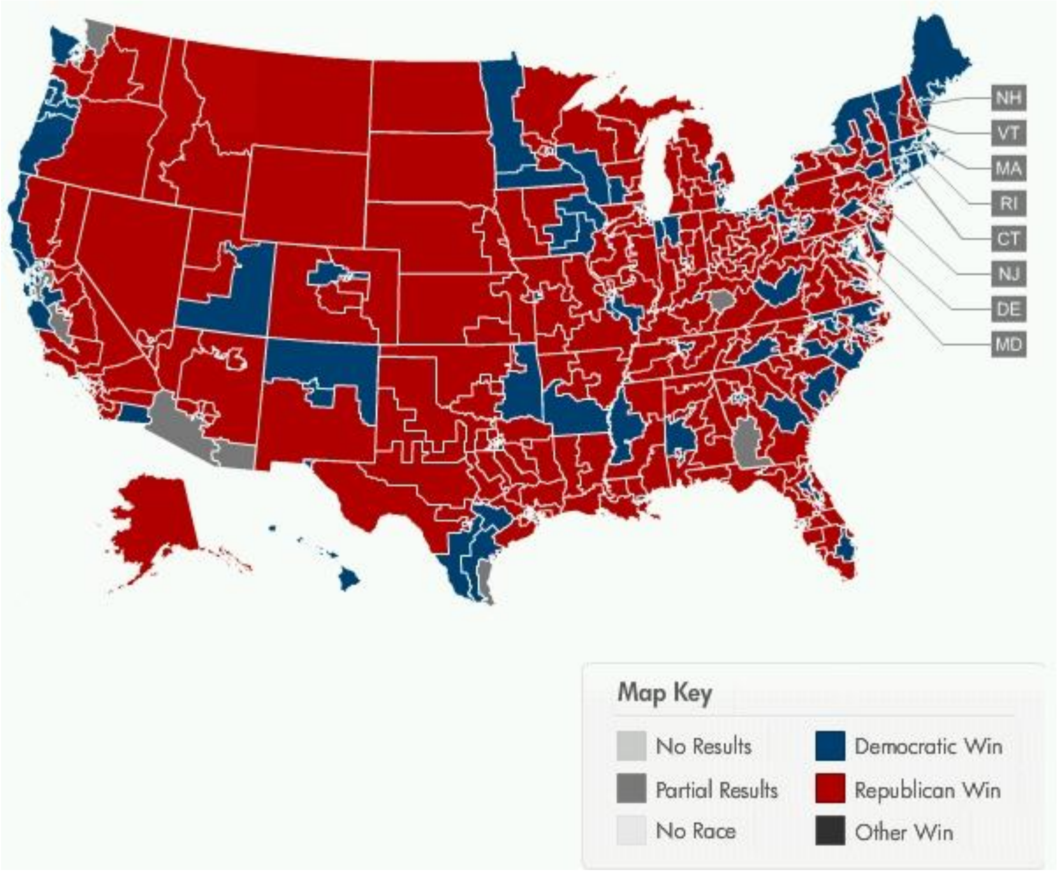
House of Representatives



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Redistricting

- Did it matter?
- North Carolina cancels out Illinois
- California map doesn’t destroy the GOP

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Tax Policy Outlook 2012 – 2013

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Overview

- Short-Term Outlook
- November Elections
- Post-Election Session (“Lame Duck”)
- “Taxmageddon” and Sequestration
- 2013: Potential Tax Reform
- Final Observations

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Short-Term Outlook

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Short-Term Outlook

Now through Election Day (November 6):

- Expectation: No tax policy legislation enacted into law
- Business "tax extenders" legislation

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Key Expired and Expiring Business Tax “Extenders”

Expired – 2011	Expiring – 2012
100% of additional first-year depreciation of qualified property placed in service in 2011	Extension of 50% additional first-year depreciation for qualified property placed in service in 2012
Research and experimentation tax credit	Renewable energy production tax credit
15-year straight line recovery for certain leasehold improvements	WOTC targeted to hire qualified veterans
Exceptions under subpart F for active financing income	Section 179 expensing (125K/500K)
Section 179 expensing to 2011 levels (500K/2MM)	
Expensing for film and television production	
Look-through treatment of payments between related controlled foreign corporations	
Work Opportunity Tax Credit for targeted groups	
Section 1603 grants in lieu of energy tax credit	

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NOVEMBER ELECTIONS

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The November Elections Have Consequences

Elections will have a dramatic impact on Federal tax policy

- Presidential candidates – competing economic visions
- Control of the Senate (53 Ds and 47 Rs)
  - Republicans need a net gain of 4 seats (3 if Governor Romney is elected)
- Control of the House (240 Rs, 191 Ds, 4 vacancies)
  - Democrats need a net gain of 25 seats

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Presidential Candidates' Tax Proposals

		Proposals:	
Tax	Current	President Barack Obama	Governor Romney
Top individual tax rate	35% (set to increase to 39.6% in 2013) excluding the 0.9% Medicare payroll tax on high-income taxpayers.	Extend lower Bush-era tax rates for families making less than $250,000 a year. Allow tax rates for families earning more than that to increase.	Change to 28%. Reduce individual income tax rates by 20% for all earners. Eliminate or limit unspecified deductions to prevent a large drop in tax revenue.
Top corporate tax rate	35%	Change to 28%. Lower top corporate rate to 28% by limiting deductions. Create new incentives for companies to bring jobs back to U.S. Add incentives for manufacturers.	Change to 25%. Lower top corporate rate to 25% by eliminating or limiting deductions. Move to a "territorial" tax system for U.S. companies with operations overseas.
Dividends	15% top rate increasing to 43.4%* in 2013	43.4%* rate for top earners	Eliminate tax on dividends for taxpayers with AGI under $200,000 and maintain current rates for those earning more.
Long-term capital gains	15% top rate increasing to 23.8%* in 2013	23.8%* long-term rate for top earners	Same as capital gains
Estate tax	35% top rate for estates over $5 million, reverting to 55% in 2013 for estates over $1 million.	45% top rate for estates over $3.5 million	Repeal estate tax.

*Includes 3.8% Medicare tax on high-income taxpayers beginning in 2013

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Washington in 2013…Most Likely Outcomes

HOUSE

- Controlled by a smaller Republican majority
- Boehner and Pelosi remain as leaders
- Fewer centrists

SENATE

- 51-49 (but which way?) or 50-50
- McConnell remains top Republican
- Possible new Leader if Democrats lose control of the Senate

WHITE HOUSE

- President Obama likely to be re-elected, but expect a very close election

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Election Scenarios and Tax Policy Implications

Implications differ dramatically depending on election outcomes:

- Divided Government
- Republican Control of White House and Congress
- Democratic Control of White House and Congress

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Post-Election Session ("Lame Duck")

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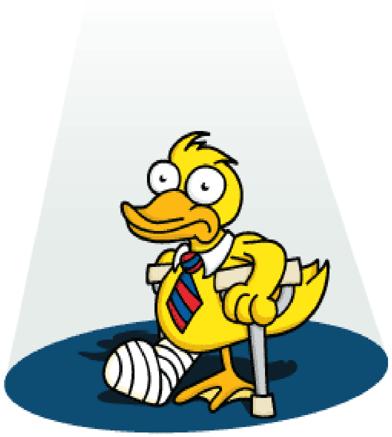
Post-Election Session ("Lame Duck")

- Extension of tax cuts, sequestration, and other issues will be post-election items
- House has already scheduled a four-week period starting on Tuesday, November 13
- "Must-pass" vs. "critical" legislation
  - Must-pass: avoiding sequestration
  - Must-pass: debt ceiling increase
  - Critical: extension of tax cuts
  - Critical: tax reform



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“Taxmaggedon” and Sequestration

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"Taxmageddon" Defined

- "Taxmageddon" (aka the "fiscal cliff") is a year-end scenario resulting from the combination of several economic events and political forces:
  - "Sequestration" (mandatory spending cuts)
  - The year-end expiration of the Bush-era tax cuts (reduced income tax rates, capital gains and dividends, and the $5.12 million exemption for estate and gift tax purposes) and
  - The November elections.
- Lurking: the need to further increase the debt ceiling limit

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Sequestration: Mandatory Spending Cuts

- Because last year's "super committee" was unable to agree on deficit reduction, the 2011 budget agreement put in place a process (referred to as "sequestration") that will automatically cut spending by $1.2 trillion for fiscal years 2013 – 2021.
  - Scheduled to take effect on January 3, 2013
  - Evenly divided between defense and non-defense
  - Eligible defense programs cut by 10%
  - Eligible non-defense or "discretionary" programs cut by 8.5%
  - Payments to Medicare providers cut by 2%
  - $109+ billion in yearly savings required to avoid sequestration

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Scheduled 2013 Individual Tax Rates*

Description	Current rates	Scheduled rates for 2013	Other additions

Individual income tax rates	10%; 25%; 28%; 33%; 35%	15%; 28%; 31%; 36%; 39.6%
		
		Reinstate personal exemption phase-out (PEP) and limitation on itemized deductions
			Individuals with income over $250,000 (joint) or $200,000 (individual) face Medicare tax increases of:
			▸ 0.9% on wages (on amounts exceeding threshold) ***and***
			▸ 3.8% on the lesser of:
			  ▸ Net investment income (e.g., interest, dividends, capital gains) ***or***
			  ▸ Excess of modified AGI on amounts over the $250,000/$200,000 threshold

Qualified dividends	0%; 15%	Individual income tax rate, with top rate of 39.6%	
Long-term capital gains	0%; 15%	20%	
Estate tax	35% top rate; $5 million exemption	55% top rate; $1 million exemption	

* If no legislation is enacted

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2013: Potential Tax Reform

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2013: Potential Tax Reform

- Late 2013 is the most likely timeframe
- Extraordinary challenges
  - Additional revenue (political and budgetary)
  - "Base broadening" = winners and losers
  - Business reform tensions
    - Corporate vs. pass-through businesses
    - Domestic vs. international
    - Manufacturing vs. service sectors
  - Individual reforms
    - Distributional effects
    - AMT (politics and cost)

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2013: Potential Tax Reform (continued)

- Differing tax visions and objectives:
  - President Obama's *Framework for Business Tax Reform*
  - Governor Romney's *"Believe in America" Plan for Jobs and Economic Growth*

- The next President will have significant say in choosing "winners" and "losers".

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2013: Potential Tax Reform – Key Elements (continued)

- President Obama’s Framework:
  - Reduce corporate tax rate to 28%
  - Manufacturing income at 25% with enhanced section 199 deduction (to 10.7%)
  - Increase R&D credit to 17% and make permanent
  - Eliminate dozens of unspecified tax expenditures
  - Reduce distortions
    - “By allowing large pass-through entities preferential treatment [i.e., no entity-level tax], the tax code distorts choice of organizational form…”
    - “Reducing the deductibility of interest for corporations should be considered as part of tax reform.”
    - Current depreciation schedules generally overstate economic depreciation

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2013: Potential Tax Reform – Key Elements (continued)

- Governor Romney's Plan:
  - Reduce corporate tax rate to 25%
  - Explore further reductions "with measures that broaden the income base"
  - Adopt territorial system
  - "Properly structured" short-term measures
    - A robust investment tax credit
    - 100% bonus depreciation (one year)
    - Lower payroll tax
- Likely – incorporate many aspects of W&M Chairman Camp's tax reform package

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2013: Potential Tax Reform – Key Elements (continued)

- W&M Chairman Camp's tax reform package
  - 25% corporate tax rate (no specifics)
  - Exempt 95% of certain foreign-source income received by 10% U.S. corporate shareholders from CFCs
  - Treat foreign branches as CFCs
  - Anti-abuse rules
    - Subpart F rules for passive income
    - Thin capitalization rules (limit domestic overleveraging)
    - Rules to prevent transfer of IP to low-tax jurisdictions

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Final Observations

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Final Observations -
Be Prepared and Pro-active

2012	2013
▪ Remain transactionally nimble ▪ Some present law rates may be "as good as it gets" ▪ Opportunities to maximize capital gains and dividends ▪ Tax reform: Tax staffs want to hear from companies <u>now</u>	▪ Tax reform • Most promising timeframe is the last six months of 2013 • Analyze economic implications of: → Ways & Means Chairman Camp's package on international tax reform → President's Framework for Business Tax Reform

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Final Observations

- The elections will greatly influence tax policy direction.
- Tax reform faces extraordinary challenges.
- Timely for:
  - businesses to identify/develop tax reform objectives and
  - Individuals to evaluate year-end strategies.

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QUESTIONS?

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Former U.S. Congressman Bart Stupak is a partner in Venable's Legislative and Government Affairs group. As Congressman to Michigan's First Congressional District for 18 years, Mr. Stupak developed a deep understanding of issues that directly affected his constituents, including matters related to energy, healthcare, telecommunications and international trade. As an attorney at Venable, he is in a unique position to provide clients with well-informed, extensive counsel that is based on a thorough knowledge of these industries and related legislation.

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Rob Smith serves as Co-Chair of Venable's Legislative Practice Group. Mr. Smith represents a diverse client base including entities from the defense, pharmaceutical, health care, environmental, financial services and transportation industries. A veteran of Capitol Hill, Mr. Smith uses his experience and knowledge to advise these clients on all aspects of federal advocacy, including obtaining federal funding, marketing and sales to federal agencies and developing effective relationships with their constituent members of Congress and congressional staff. Using his numerous bi-partisan relationships on Capitol Hill, he has led many successful legislative coalition efforts on behalf of his clients. These successes are a direct result of his well-established relationships with representatives from both parties.

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Sam Olchyk represents business interests on tax policy issues involving the U.S. Congress, the Treasury Department, and State tax authorities. Mr. Olchyk also represents businesses on tax controversy matters before the IRS. Prior to joining Venable in 2003, Mr. Olchyk spent eight years as tax counsel with the Senate Finance Committee and then as Legislation Counsel with the Joint Committee on Taxation. Relying on his experience with the tax legislative process and his background as a licensed CPA, Mr. Olchyk provides strategic advice and solutions to business tax problems.

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