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# *“President Trump’s Tax and Trade Policies: Impact on Supply Chain and Business Strategy”*

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**BUILDING SUPPLY CHAIN EXCELLENCE END TO END**



**Bio Supply Management Alliance**

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***Trump administration  
trade and tax policies:  
Impact to supply chain  
and business  
operations***

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# ***Agenda***

**01** ***Introductions***

**02** ***Trump Administration – Review thus far***

**03** ***Potential tax and trade reform***

**04** ***Impact on supply chain***

# ***Trump administration review – The administration identified an ambitious set of priorities...***

## **Regulatory reform**

Healthcare reform, repeal/replace ACA and rollback regulations (e.g., Dodd-Frank, ACA, pricing)

## **Tax reform**

Lower business tax rate while broadening the base



Shared Trump/GOP priorities



No clear consensus yet



## **Trade and immigration**

(NAFTA, Trans-Pacific Partnership, travel restrictions)

## **Infrastructure**

Invest to upgrade US infrastructure, Keystone pipeline

# ***Comprehensive tax reform is top priority for Republican-controlled White House and Congress***

## **Trump Administration**



**Treasury Secretary  
Mnuchin**



**NEC Director  
Cohn**

## **US House of Representatives**



**Speaker Ryan**



**Ways & Means  
Chairman Brady**

## **US Senate**



**Majority Leader  
McConnell**



**Finance  
Chairman Hatch**

- Achieving first priority – health care – unsuccessful even with GOP control
- Other priorities, investigations, and tweets are competing for attention
- Need “tax reform budget” to facilitate passage of tax reform legislation



**Donald J. Trump** @realDonaldTrump · Sep 8

Republicans must start the Tax Reform/Tax Cut legislation ASAP. Don't wait until the end of September. Needed now more than ever. Hurry!

11K

20K

78K



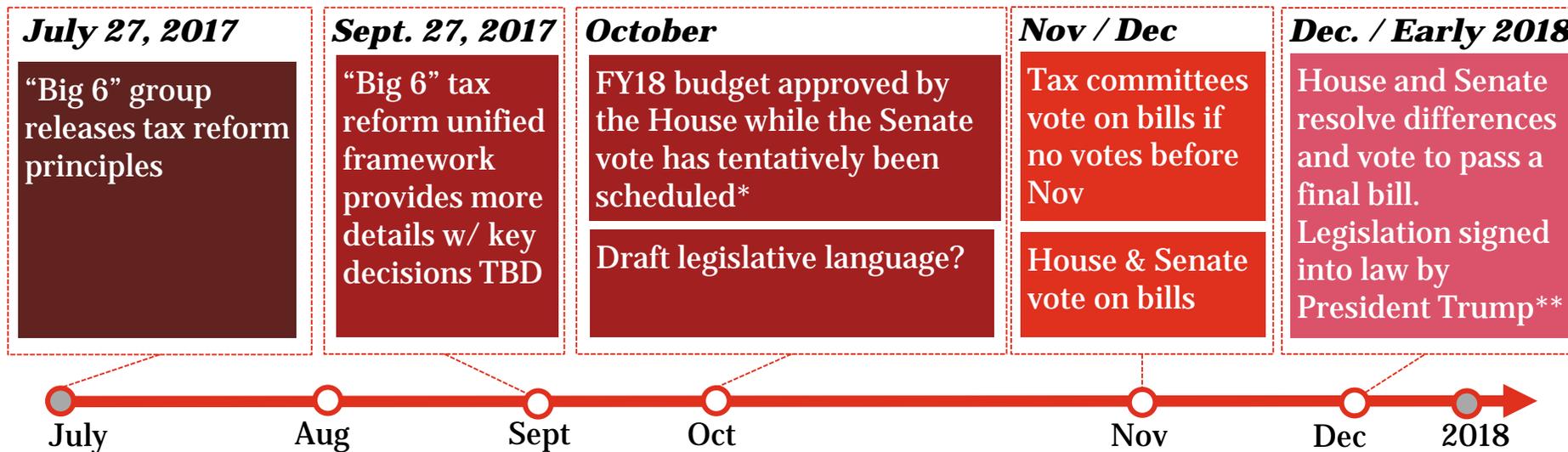
# ***Congress must adopt budget in order to move GOP tax reform...*** *...but hard decisions will be left to House and Senate tax committees*



- GOP lacks filibuster-proof Senate majority and faces internal divisions in House and Senate
- Under budget reconciliation, Republican leaders can only lose 2 Senate GOP votes and 22 House GOP votes
- House budget resolution calls for deficit-neutral tax reform
- Senate budget resolution allows up to \$1.5 trillion in deficit-financed tax reform
- Both chambers must approve joint budget resolution to put reconciliation protections into effect

Benefits	Limitations
<ul style="list-style-type: none"><li>• Requires simple majority vote in Senate (cannot be filibustered)</li><li>• Expedited consideration (time limits for floor amendments and debate)</li></ul>	<ul style="list-style-type: none"><li>• Deficit increases not permitted outside budget period (e.g. 10 years)</li><li>• All provisions must have an effect on federal spending or revenue</li></ul>

# Tax reform: a possible timeline for success



\*Budget resolution approved by both House and Senate is critical – without first passing, Republicans would not be able to use budget reconciliation (which allows them to avoid Democratic filibuster in the Senate).

\*\*If House & Senate pass tax bills by end of 2017, potential to reconcile any differences and pass a unified bill either by the end of calendar year 2017 or in early 2018. Whether the ultimate tax reform signing ceremony occurs around Thanksgiving or early 2018, we expect the effective date generally to be 1/1/2018.

# ***“Big 6” tax reform unified framework***

## **Principals**

- Make the tax code simple, fair and easy to understand
- Give American workers a pay raise by allowing them to keep more of their hard-earned pay checks
- Make America the jobs magnet of the world by leveling the playing field for American business and workers
- Bring back trillions of dollars that are currently kept offshore to reinvest in the American economy

## **Goals**

- Tax relief for middle-class families
- The simplicity of “postcard” tax filing for the vast majority of Americans
- Tax relief for businesses, especially small businesses
- Ending incentives to ship jobs, capital, and tax revenue overseas
- Broadening the tax base and providing greater fairness for all Americans by closing special interest tax breaks and loopholes

# Comparison of business tax reform proposals

Proposal	Current Law	2014 Camp bill (H.R. 1)	Unified framework
<b>Corporate tax rate</b>	35% rate	25% (phased in over 5 years)	20%
<b>Pass-through businesses</b>	Taxed at individual rates	Same as current law except for qualified domestic manufacturing income [capped at 25% individual rate, excl. self-employment income]	25% maximum rate on business income of “small and family-owned businesses”
<b>International tax regime</b>	‘Worldwide’ system with deferral Foreign tax credits to mitigate double taxation	‘Territorial’ system 95% foreign dividend exemption	‘Territorial’ system 100% foreign dividend exemption
<b>Base protection measures</b>	Subpart F anti-deferral rules for CFCs; 163(j) for inbound companies	New tax on “intangible income”: 15% on foreign market sales; 25% for US market sales	Rules to protect the US tax base (1) by taxing at a reduced rate and on a global basis the foreign profits of US MNCs and (2) level playing field between US MNCs and foreign-parent MNCs
<b>“Deemed” repatriation</b>	N/A	Previously untaxed foreign earnings: 8.75% cash & cash-equivalents 3.5% non-cash assets Paid over 8 years; proportional reduction in foreign tax credits	H.R. 1 style bifurcated rate but unspecified rate with tax to be paid “over several years”
<b>Cost recovery</b>	Recover over the investment’s applicable life (50% bonus depreciation for equipment in 2017, phased-out by end of 2019); expense R&D and advertising	Longer recovery periods for equipment; amortize R&D and advertising	100% full expensing for at least 5 years for investments made after Sept. 27, 2017
<b>Business interest expense</b>	Deductible as incurred	Limit for thin capitalization	Partial limitation

# Trade and immigration policy

## Potential trade and foreign policy changes and risks



Executive orders: Report on trade imbalance; more power for customs to collect duties owed to US; NAFTA renegotiation

## Considerations:



- 1** Build a flexible supply chain that can weather trade storms; make contingency plans
- 2** Assess current and future talent needs requiring visa sponsorship; perform scenario-planning with alternative talent sourcing options
- 3** Adapt to the likelihood of rapid change and uncertainty in regulatory and trade policy--Government affairs and communications teams must be nimble
- 4** Consider fast-tracking capital projects to take advantage of low interest rates before deficits and/or monetary policy shifts lead to increased borrowing costs



# Pharma and Life Science executives have many questions about what reform means overall and the impact on their businesses

## Trump elections lifts hope for tax policy relief but adds to trade uncertainty

% US CEOs who said...

	Pre-election	Post-US election	Total US sample
"Very confident" in revenue growth prospects over the next three years	51%	68%	56%
"Extremely concerned" about an increasing tax burden	45%	32%	41%
"Extremely concerned" about protectionism	23%	38%	27%



Source: 2017 PwC Global CEO Survey – US supplement

Q: How confident are you about your company's prospects for revenue growth over the next three years?

Q: How concerned are you, if at all, about these business, economic, policy, social and environmental threats to your organization's growth prospects?

Base: 114 US respondents (80 pre-election; 34 post-election)

# Elements of corporate tax reform

Directional Impacts		US based multinational – net exporter	US domestic pass-through	US - highly leveraged	US domestic multinational – net importer	Non-US based multinational – net importer
★	Business tax rate reduction	+++	+++	+++	+++	++
■	Territorial tax system	++	0	0	0	0
■	“Deemed” repat./toll charge	+	0	0	0	0
■	Expensing of capital investments	+	++	+	+	+
■	Loss of interest deductibility	–	–	– –	–	– –
■	Base erosion	0	0/–	0/–	– –	0

**Probability**

■ High    ■ Moderate    ■ Low

**Impact**

– Negative    0 Neutral    + Positive

★ Level of business tax rate reduction highly dependent on political consensus regarding revenue neutrality

# ***Actions around no regret, offensive, and option value creation should all be part of the strategic plan going forward***

## **No regret moves**



- Pharmaceutical and life sciences companies should assess their manufacturing footprints, physical and financial flows, and trade agreements, and pressure-test assumptions regarding capital investment plans in light of the tax and trade reform proposals. A review of legal structures, including those involving IP, will help determine potential risks, opportunities, and impacts.

## **Offensive moves**



- Companies should develop and share perspectives with industry trade groups and members of Congress to make sure legislators understand their perspectives on reform so they can make better-informed decisions. Companies also should identify opportunities to take advantage of potentially lower US corporate income taxes to defer income and accelerate deductions in the event the rate is reduced.

## **Option value**



- In light of the Big Six statement, pharmaceutical and life sciences companies should continue to monitor the post-BAT development of tax policy and model the impact of tax reform provisions to understand potential company impacts, mitigate risk, and take advantage of potential opportunities. Organizations with action plans to quickly respond to tax law changes will be best positioned.

# Q&A

## ***Additional resources***

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To download a replay of a recent webcast on this topic, please go to:

<https://www.pwc.com/us/en/cfodirect/multimedia/webcasts/trump-administration-trade-tax-supply-chain-impact.html>

To access related Thought Leadership publications, visit the links below:

- [\*Tax reform proposals could impact pharma, medical device and equipment supply chains\*](#)
- [\*Health reform 2.0: A guide to developing resilience amid an uncertain future for the Affordable Care Act\*](#)