

AN ALERT FROM THE BDO TECHNOLOGY PRACTICE

# BDO KNOWS: TECHNOLOGY

## TECHNOLOGY'S POST-ELECTION FUTURE UNDER A TRUMP ADMINISTRATION

### SUMMARY

The technology industry is no stranger to Washington D.C. In 2015, the five biggest U.S. tech companies spent \$49 million on lobbyists, outspending the five largest banks by more than \$29 million, according to data compiled by the [Center for Responsive Politics](#). A *New York Times* article, appropriately titled, "Obama Brought Silicon Valley to Washington," describes the legacy of former President Obama as one which championed technology "as an engine to improve lives and accelerate society more quickly than any government body could."

But that was then, and this is now. With a new president recently installed in the White House, Silicon Valley's relationship with Washington has hit the reset button.

To [quote](#) former Yahoo CFO Sue Decker, "Silicon Valley and D.C. need each other." In other words, tech leaders have come to realize that maintaining an open line of communication with the White House is critical to their long-term success.

In this month's alert, BDO examines some of the biggest open questions facing the tech industry under the new administration.

### DETAILS

#### TAX REFORM:

While a barrage of executive orders took center stage in the opening weeks of Donald Trump's presidency, looking forward, all eyes are on tax reform. In BDO's [Tax Outlook Survey](#) published in March 2016, 77 percent of tax directors said they believed tax reform would happen if the next president was a Republican. Another 62 percent said they believed tax reform would happen if Republicans controlled Congress. With a Republican president *and* a Republican-controlled House, hopes are high that the new administration will pass pro-business tax policies.

House Republican proposals to lower the corporate tax rate from 35 percent have been met favorably by most businesses across the board. The U.S. currently has one of the [highest corporate tax rates](#) among the Organization for Economic Co-operation and Development (OECD) member nations (12 percentage points higher than the OECD's average 23 percent), and as a result, many American companies have long felt the strain of paying higher rates than their international competitors. And while the tech industry does have a [lower](#) median effective tax rate (21.7 percent) than other sectors, many companies are still looking forward to savings from the cut.



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However, corporate tax rate cuts may come with a cost. The border tax-adjustment proposal, contained in the House Republicans' tax blueprint, *A Better Way: Our Vision for a Confident America*, would create a destination-basis tax system that would tax all imports into the U.S. at the corporate tax rate of 20 percent, but exempt all exports from any taxes at all. The proposed tax would have the greatest impact on companies with high net imports.

Another major component of the President's tax plan is the possibility of a "tax holiday," or a repatriation of corporate profits held offshore at a much lower, one-time rate of 10 percent—about a [third](#) of what the current law requires. Because many tech companies hold a significant percentage of their cash overseas—as much as an [estimated \\$700 billion](#), according to Goldman Sachs analysts—this proposal could inspire the industry to bring back billions of dollars to the U.S. What companies do with this money is up to their discretion; Barclays analysts predict that many may use it for stock repurchase programs and reinvestment incentives that could eventually benefit tech stocks.

However, per Merrill Lynch's research division, the earnings-per-share benefits from repatriated foreign cash could be cancelled out if the net-interest expense deduction is eliminated—another tax proposal currently on the table.

### GLOBAL TRADE:

Many of the administration's proposed trade measures are geared towards two goals: To create additional (or protect) American jobs and reduce the trade deficit. A major part of this plan is moving away from multi-lateral trade partnerships to bilateral trade partnerships, including a potential renegotiation of, or withdrawal from, the North American Free Trade Agreement (NAFTA), along with the U.S.'s recent withdrawal from the Trans-Pacific Partnership (TPP) negotiations—actions that could affect the U.S.'s trade relationships with 11 countries on four continents.

The U.S. tech industry has been a vocal proponent of the TPP. In September 2016, a number of leading industry associations co-signed a [letter](#) calling on Congress to work with the administration to pass the TPP. According to the same letter, U.S. technology companies exported \$10 billion in goods and services to the TPP markets in 2014. Another key component of the TPP that appealed to the industry was certain protections it offered to facilitate cross-border data transfers.

The administration's decisions on key trade policies will significantly impact the tech industry, a sector that has long [depended](#) on the existing global trade framework for access to key markets and supply chain operations. The withdrawal from current trade agreements or the introduction of new import and export controls may prompt other nations to adopt retaliatory measures. Changes in trade relations could also impact sourcing and supply chain strategies.

### LABOR AND IMMIGRATION:

In its first few weeks, the new administration has made U.S. job creation, and the movement of jobs back to the U.S., the central pillar of its "America First" platform. The tech industry, which outsources many of its manufacturing jobs overseas, has been pressured to repatriate jobs—and unsurprisingly, many recent tech company announcements have aligned with this idea. IBM, for example, [announced](#) in December its plan to add 25,000 U.S. jobs over the next four years. Amazon similarly [pledged](#) in mid-January to add 100,000 full-time jobs in the U.S. by mid-2018.

However, some tech leaders strongly object to the President's views on outsourcing. In a recent *60 Minutes* interview, Apple's Tim Cook said he would "love to bring [jobs back] home," but contended it was an unreasonable ask because "it would cost me 40 percent." To combat the negative narrative on outsourcing, some tech companies are investing in [studies](#) to quantify the impact

of the industry as an engine of U.S. job creation.

Another policy lightning rod for the industry is President Trump's executive order barring immigrants from seven nations from entry into the U.S. Many tech leaders have publicly denounced the move, and a total of [127 companies](#), including industry heavyweights such as Apple, Facebook, Google and Microsoft, signed an amicus brief opposing the executive order. Public controversy is also creating PR issues in the form of both pro-Trump and anti-Trump boycotts.

The future of the executive order is uncertain at this point—especially with [recent confirmation](#) from the White House that a new order on immigration is under consideration. As such, the debate on immigration is far from over. The administration's position on H-1B visas, which grant temporary residency to foreign workers with "specialty occupations," and which the tech industry heavily relies on to source its labor, will be especially key. Should the visas become more difficult or expensive to obtain, the industry can expect an increase in the demand and salaries for highly skilled technology talent.

### BDO INSIGHTS

The new administration will need to address a flurry of other technology issues not discussed in this alert—including cybersecurity, data privacy, net neutrality, tech research and development, innovation, energy, space exploration and more. As is the case with any new administration, the development and implementation of these policies will take some time. Nevertheless, tech leaders need to prepare to actively push for, and deal with, federal changes that will play a huge role in their future success.

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