FEBRUARY 2013

Bank of America Merrill Lynch

ARTICLE

Top Trends in 2013

A review of the major issues that will affect business and shape corporate strategy this year

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President Barack Obama's re-election lifted the shroud of uncertainty that had hung over the markets, as well as tax and regulatory policies. This uncertainty was widely cited as a reason for the hesitancy on investing and hiring in the latter half of 2012. Early in 2013, Congress averted a plunge off the "fiscal cliff" when the House accepted a Senate compromise that keeps at bay broad tax increases and, for the time being, extensive spending cuts. Congress also extended emergency unemployment benefits and mortgage debt forgiveness.

Remaining unresolved are several critical fiscal issues: the federal budget; sequestration (i.e., automatic, across-the-board federal spending cuts); and how to come to grips with the debt ceiling.

In late January, the House agreed to suspend the debt ceiling for three months. Meanwhile, continuing widespread economic crises and sluggish growth in Europe threaten to affect U.S. trade and economic growth in 2013.

Perhaps the most complex and uncertain issue affecting business in the near future is the impact — on companies of all sizes — of the Affordable Care Act, slated to go into effect next January. Other areas with varying degrees of uncertainty include taxes, government regulation, trade and the global economy.

What follows is a glimpse of where things stand — subject, of course, to change.

TAXES

The fiscal cliff rescue in January helps keep in place the last Bush administration tax cuts for individuals earning less than $400,000 a year and couples earning less than $450,000, while raising the rate on those earning more — from 35% to 39.6%. The change is expected to raise approximately $600 billion in revenue over the next 10 years. On capital gains and dividends, the tax rate will rise from 15% to 20% for upper-level incomes, while rates will remain at 15% for taxpayers below these thresholds. At the same time, the payroll tax has been moved to 6.2% this year, amounting to a $1,000 tax increase for someone earning $50,000 a year.

For big business, the temporary avoidance of the fiscal cliff means an extension of the 20% R&D tax credit, a key to spurring innovation-creating incentives for research-oriented hiring and spending. Some 80% of R&D tax credits apply to companies with $250 million or more in gross receipts. Smaller companies can use a modified version of the tax code to calculate credits. Approximately $46 billion in business tax breaks were included in the compromise agreement, plus a long list of tax "extenders," or temporary tax provisions.

Another area that could receive closer scrutiny this year is the estimated $1.7 trillion in cash that American companies say their foreign subsidiaries have invested overseas, but that may, in fact, be in U.S. banks and securities. According to an article in the Jan. 23 *Wall Street Journal,* this practice, which relies on an accounting technicality to shield profits from U.S. taxes, is likely to become part of the ongoing debate over corporate tax reform.

HEALTHCARE

The Affordable Care Act — or "Obamacare" — will mean different things to different companies and groups of individuals. The act requires businesses with 50 or more full-time employees to provide healthcare coverage or pay a penalty of $2,000 per worker.

A major concern for large companies is that healthcare costs will play an increasingly dominant role in the economy. According to the Centers for Medicare and Medicaid Services, total healthcare spending is projected to grow from 17.9% of the GDP in 2011 to 19.6% in 2021. With these costs rising and the Jan. 1, 2014, deadline for the mandatory act looming, businesses are calculating the impact on their bottom line and evaluating strategies. In Bank of America Merrill Lynch's 2013 CFO Outlook, Chief Financial Officers cite growing healthcare costs as the top concern within their own companies.

One strategy is for companies simply to require employees to pay a larger share of health insurance costs. Another, reportedly being considered by a number of large companies, is to pay the penalty rather than provide coverage; employees without coverage would, in theory, be able to search for coverage through state- or federally run health exchanges. A third strategy is to cut workers' hours or hire more part-time employees to get around the time-clock requirement.

A survey conducted by Mercer, a human resources and finance consulting group, found that 18% of companies with part-time employees said they would adjust hours so that fewer employees worked more than 30 hours. The downside to reducing full-time workers or part-timers' hours, some analysts say, is less employee commitment and less productivity.

Mandatory healthcare is the law of the land, yet just exactly what it will demand of businesses, and how it will be enforced, remains unclear. Late last year, the Supreme Court ruled that an earlier lawsuit challenging provisions of the act can be heard again in a federal appellate court.

TRADE

In 2013, President Obama is expected to continue to pursue the aggressive trade policies begun in his first term. They include working for free-trade agreements with South Korea, Colombia and Panama, and continuing negotiations on the Trans-Pacific Partnership, a U.S.-initiated free-trade pact in the Asia-Pacific region involving 11 member countries.

Also under way is a comprehensive trade agreement with the 27-nation European Union and a move by the administration to file additional cases against China with the World Trade Organization. The administration is likely to continue to pressure China to allow its currency to rise more rapidly in value and is under pressure itself from U.S. companies to counter growing competition from China's state-owned and -supported enterprises.

The president's National Export Initiative would double exports, to $3.5 trillion by 2015, and create an estimated 6,000 jobs for every $1 billion in exports. The U.S. Department of Commerce estimates that, at the current annual growth rate of 16%, that goal is achievable.

In mid-January, the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce, announced that November 2012 exports were up $1.7 billion from the October figure of $180.8 billion; imports rose $8.4 billion, from $222.9 billion in November 2011.

Meanwhile, as wages and the cost of doing business in China rise, more U.S. companies are bringing operations and production back to the states. A big lure is also the low cost of U.S. energy. At the same time, the president has proposed eliminating tax loopholes and taxing profits earned by U.S. companies doing business overseas. The losers in this scenario would probably be small and midsize businesses, which make up the majority of U.S. exporters and importers. They also face the possibility of stiff new tariffs from China and other countries.

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