EARLY PRIORITIES FOR THE BIDEN ADMINISTRATION: AREAS TO WATCH

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THE BIDEN ADMINISTRATION'S FIRST 100 DAYS ARE OFFICIALLY OVER.

In what is typically a period characterized by a flurry of executive orders that establish early policy priorities, President Joe Biden has understandably focused much of his energy on one of the most pressing challenges the United States has faced in generations: bringing an effective end to the COVID-19 crisis.

During the first three months in office, the Administration has been able to accelerate vaccination distribution after a record-speed vaccine development process, offering hope of a world less impacted by the spread of the pandemic.

However, with 100 days now in the rear view mirror, the Biden administration is setting its sights on the future—one in which the United States still faces both short- and long-term challenges that would be daunting for any administration. From continuing to chip away at a COVID-heightened unemployment rate to addressing domestic and social unrest to thinking through a climate change strategy, the Administration has its hands full over the next few years. With a challenging midterm election on the horizon, the motivation to advance its agenda quickly and decisively is top of mind.

For business leaders, the intersection between politics, economy, consumer behavior, public health, social issues and environmental issues has never been so large—or important. Businesses will continue to be tested in ways that they could not have imagined just a few years ago. Those that can navigate these challenges well will come out ahead.

While there are dozens of policies that will unfold over the next four years, there are several key areas for leaders to watch in the short term and consider for future opportunities and challenges that arise.

PRIORITY: PUTTING THE PANDEMIC BEHIND US

When the **American Rescue Plan Act (ARPA) was passed in March**, it offered a re-upping of the stimulus—nearly $6 trillion worth in total—that the U.S. economy has been leaning on for support since the pandemic began. The $1.9 trillion ARPA relief plan centered on stimulus checks, expanded unemployment support, expanded paid sick leave, emergency paid leave, reimbursements to small businesses, funds for state and local governments and resources for vaccination programs and testing sites.

This has been the priority for the Biden administration. If the Administration can continue to oversee a successful rollout of vaccinations, the idea is that everything else will fall into place. While the Biden administration moved quickly to juggle multiple priorities in its first 100 days, the faster and more successfully the vaccination rollout goes, the faster the economy can put the COVID-19 lockdowns behind it—and move on to what's next.

WHAT TO WATCH

While the coronavirus will eventually begin to fade from center stage in American life, the trends that the pandemic turbocharged—from consumer shopping behavior to workplace traditions to upending whole industries—show no signs of turning back.

A so-called "return to normalcy" will have enormous implications for business leaders in terms of planning for employees, customers and business strategy. However, the most successful businesses will not be those looking to go back to business as usual. The companies that drive outsized growth will be those that act on the lessons learned over the past year and adapt for a future **where the rules of business are continually reinvented**.

While we hope to never experience a pandemic of this scale again in our lifetimes, massive disruption events are proliferating, from natural disasters to widespread cyberattacks to financial turmoil. The next black swan won't wait 100 years. And while you can't plan for the unpredictable, you **can** improve **your readiness to respond**.

PRIORITY: DOING WELL BY DOING GOOD

Beyond tackling the pandemic, one of President Biden's next priorities is promoting broad environmental, social and governance (ESG) initiatives.

On the environmental front, battling climate change has been a central pillar of President Biden's campaign, starting with reentering the Paris Agreement hours after he took office through a series of executive orders that placed climate change at the forefront of domestic and foreign policy. President Biden has intrinsically tied his climate policy to his plan for economic recovery, promising a move toward a "Clean Energy Revolution."

The Administration's goals are lofty. Included in its $2 trillion climate proposal are plans to:

- Eliminate fossil fuel emissions entirely from the energy sector by 2035 and in the economy more broadly by 2050.
- Reengineer old infrastructure to be able to endure the effects of climate change.
- Encourage electric vehicles and the system of charging stations that would keep them running.
- Expand zero-emission public transportation.
- Invest in eco-friendly buildings and housing construction.
- Improve sustainable agriculture practices.
- Develop new technologies for clean energy.

On April 21, during his Earth Day Climate Summit speech, President Biden went a step further, calling for the United States to cut emissions 50-52% from 2005 levels by 2030, as well as establish a federal climate task force to help achieve those targets.

In addition to the focus on climate change, the Biden administration has made it clear that it will embrace further mandatory regulatory requirements around ESG reporting broadly.

The first step for regulators will be deciding upon a reporting framework designed to provide more consistent, comparable, and reliable information for investors. Establishing the baseline will help businesses better understand, report, measure and track against key metrics more easily and consistently.

In March, the SEC launched a Climate and ESG Task Force in a concerted effort to encourage businesses to improve corporate practices around environmental, gender, racial and social issues. Consistent with increasing investor focus and reliance on climate and ESG-related disclosure and investment, the Task Force will also develop initiatives to proactively identify and address ESG-related misconduct.

For many boards, the issue of ESG has moved its way up the shareholder meeting agenda in recent years. As sustainability becomes standard and more scrutiny is put on action versus talk, boards are focusing more attention than ever before on issues of diversity, equity, inclusion and environmental stewardship.

Read our latest Shareholder Meeting Agenda to learn more about board priorities in 2021.

The focus on ESG will only continue to increase—both in the public discourse as well as the in the eyes of regulatory watchdogs. Public sentiment around climate change, corporate ethics, diversity, equity & inclusion, worker health & safety, sustainability and other related issues are stronger than ever, and the momentum around ESG reporting is unlikely to reverse course.

WHAT TO WATCH

The good news for the Biden Administration and others who see climate change and ESG matters as key concerns is that these issues are increasingly in focus across society—politically, socially and economically. Popular sentiment is pushing companies to think more critically about their relationships with employees, customers, shareholders, communities, the environment, the economy and the general public overall.

The economy itself has already shifted over the past several years toward accepting and championing clean energy and sustainability as a core global priority. Sustainability, racial equity, diversity and corporate responsibility are increasingly baked into what it means to do business—and the link to ROI in higher profitability, higher valuations and lower investment risk is strengthening.

However, the relative lack of clarity and consistency on reporting criteria and lack of regulatory oversight has made the issue of ESG subjective and difficult to substantiate.

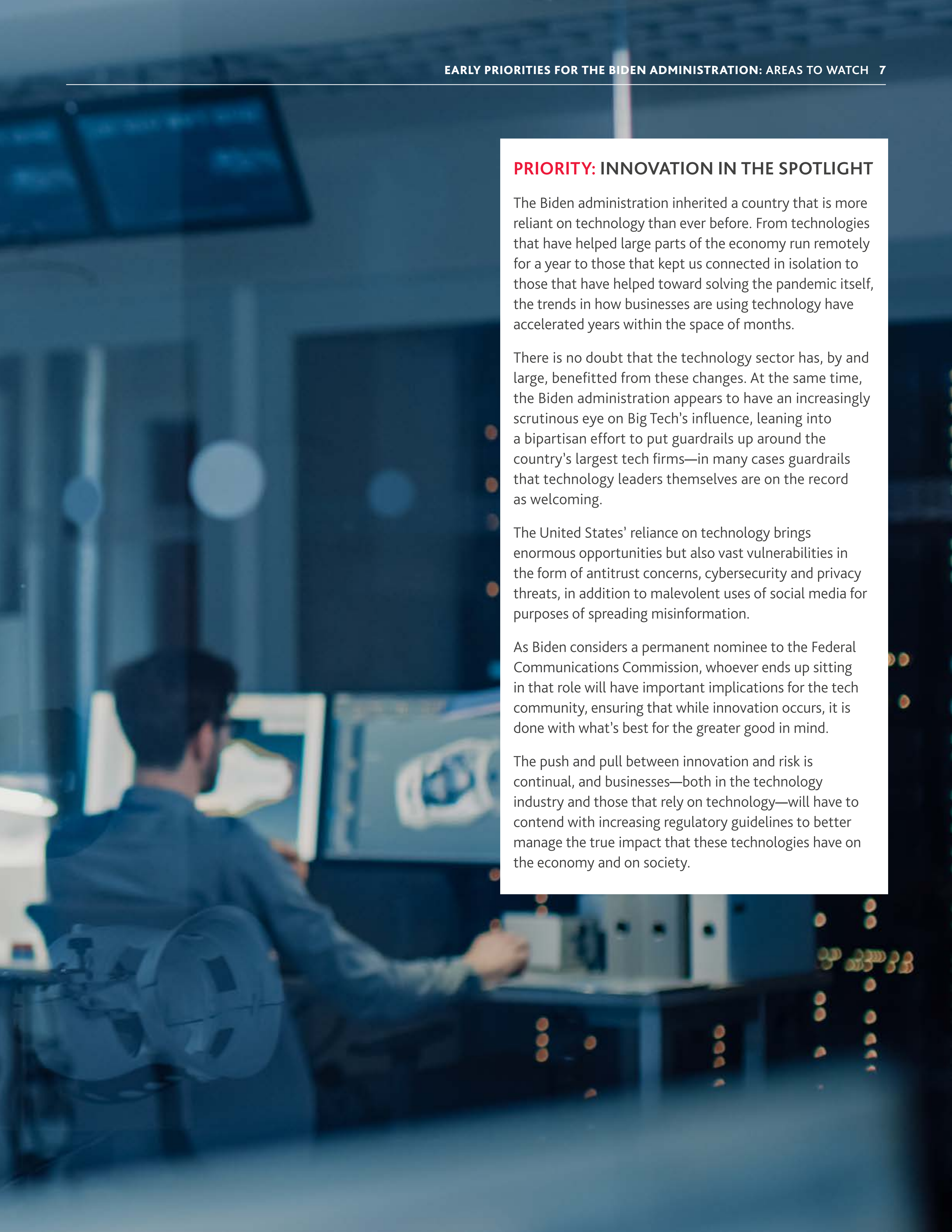
For businesses that haven't had a corporate purpose centered on sustainability or broader ESG issues in the past, making that transition toward a new approach without clear guidelines can be tricky. **However, it is clear that the issue of ESG is becoming one that corporate boards and leadership teams are increasingly focused on.**

The move requires a top-down commitment to alter—sometimes dramatically—the way the company operates, redefining success in terms that marry profit with purpose.

Attitudinal shifts from employees and executives alike have led many businesses—large and small—to focus on addressing ESG issues as a corporate goal, and major investors have made it a prerequisite. When you can do well by doing good, everyone wins.

More than ever before, people want to work for organizations that stand for clear values. Whether around racial justice, gender equity, environmental protection, wealth equity, or any other cause, businesses are learning to get the most out of their workforces by leading by example.

Read more about What's Next for Work: The Intersection of People, Purpose and Pivots.



PRIORITY: INNOVATION IN THE SPOTLIGHT

The Biden administration inherited a country that is more reliant on technology than ever before. From technologies that have helped large parts of the economy run remotely for a year to those that kept us connected in isolation to those that have helped toward solving the pandemic itself, the trends in how businesses are using technology have accelerated years within the space of months.

There is no doubt that the technology sector has, by and large, benefitted from these changes. At the same time, the Biden administration appears to have an increasingly scrutinous eye on Big Tech's influence, leaning into a bipartisan effort to put guardrails up around the country's largest tech firms—in many cases guardrails that technology leaders themselves are on the record as welcoming.

The United States' reliance on technology brings enormous opportunities but also vast vulnerabilities in the form of antitrust concerns, cybersecurity and privacy threats, in addition to malevolent uses of social media for purposes of spreading misinformation.

As Biden considers a permanent nominee to the Federal Communications Commission, whoever ends up sitting in that role will have important implications for the tech community, ensuring that while innovation occurs, it is done with what's best for the greater good in mind.

The push and pull between innovation and risk is continual, and businesses—both in the technology industry and those that rely on technology—will have to contend with increasing regulatory guidelines to better manage the true impact that these technologies have on the economy and on society.

WHAT TO WATCH

An increase from the Biden Administration in regulation around the tech industry brings greater scrutiny on companies of any industry that collect and store data. **Privacy rules are constantly evolving and, with more focus on data privacy and consumer rights**, both globally and in the United States, the more that businesses can effectively manage their customer data, the less risk they will take on.

Finding the right balance between investment in digital capabilities and ensuring compliance with data privacy and cybersecurity regulations is not easy.

The opportunity is clear. According to **BDO's recent CFO Outlook Survey**:

55% of CFOs said they will increase R&D spending in the next year

39% of CFOs said the pandemic has accelerated their investment in digital transformation

However, being able to effectively manage digital risk and compliance will be more important than ever.

This Administration is likely to tilt the balance of data privacy in favor of the consumer over the business. How businesses adapt to changing dynamics will be crucial. As on the global geopolitical stage, businesses that invest in new technologies will be those that succeed, and the rate of progress is only getting faster. Investing today will no doubt pay off dividends in the economy of tomorrow—as long as data privacy, cybersecurity and regulatory compliance stay priorities along the way.

Privacy laws are constantly evolving around the world and in the United States, at both a statewide and federal level.
Stay ahead of important privacy laws—wherever you do business—with our Global Privacy Tool.

PRIORITY: DEFINING BIDENCARE

The healthcare industry has been in the spotlight for the past decade, since the Affordable Care Act was signed in March 2010. After numerous lawsuits and challenges, including in the U.S. Supreme Court, the ACA is set to be bolstered in the Biden administration. The President has already used executive orders to expand enrollment periods for the ACA in an effort to strengthen the program in the short term before turning his eye to his vision of Bidencare.

What might Bidencare include? In short, it will build on the ACA, focusing on lowering premiums, deductibles, and the price of prescription drugs, while expanding access and adding a public option. The Biden administration was even able to secure boosts to the ACA within the COVID-focused ARPA, in the form of a removal of the income cap for health insurance premium tax credits through a federal exchange or state marketplace, as well as a limit of 8.5% of income for healthcare costs.

What Bidencare is unlikely to include, however—at least in the current political climate—is sweeping change to the industry.

While the Biden administration has been able to use multiple tools to make progress on priorities such as pandemic response and battling climate change, any major changes on the immediate future of healthcare in the United States remain in doubt.

WHAT TO WATCH

COVID-19 underscored that healthcare is as important today as it has ever been, in the United States and around the world. While a grand "Medicare for All" plan is unlikely to happen in this Congress, expanding the reach of the ACA while lowering costs to individuals would bring benefits to the economy.

Employer-sponsored healthcare plans continue to be an important recruitment and retention tool for businesses. Providing access to expanded types of care, which took on greater importance during the pandemic, such as mental health and wellness care, are and will continue to be increasingly important.

PRIORITY: BUILDING BACK BETTER

On the campaign trail, then-candidate Biden outlined his vision of an infrastructure plan dubbed the "Build Back Better" plan.

The new bill, announced in full in late March as the American Jobs Plan, includes several proposed investments in both traditional and modern infrastructure systems.

- Roads & Bridges
- Nationwide Electric Vehicle Charging Grid
- Public Transport
- Water Systems
- Ports
- Electric Grid Upgrades
- Airports
- Increased Broadband Access

In addition, President Biden is pushing for investment in care for elderly and disabled Americans, new affordable housing and schools, and funding for manufacturing, R&D and job training.

The Biden administration has argued that decades of a lack of investment has left the United States lagging behind others when it comes to competitiveness on the global stage. In particular, the Administration sees this as an opportunity to level the playing field, financing more projects in rural and disadvantaged communities, with a focus on sustainability and "clean infrastructure" investments.

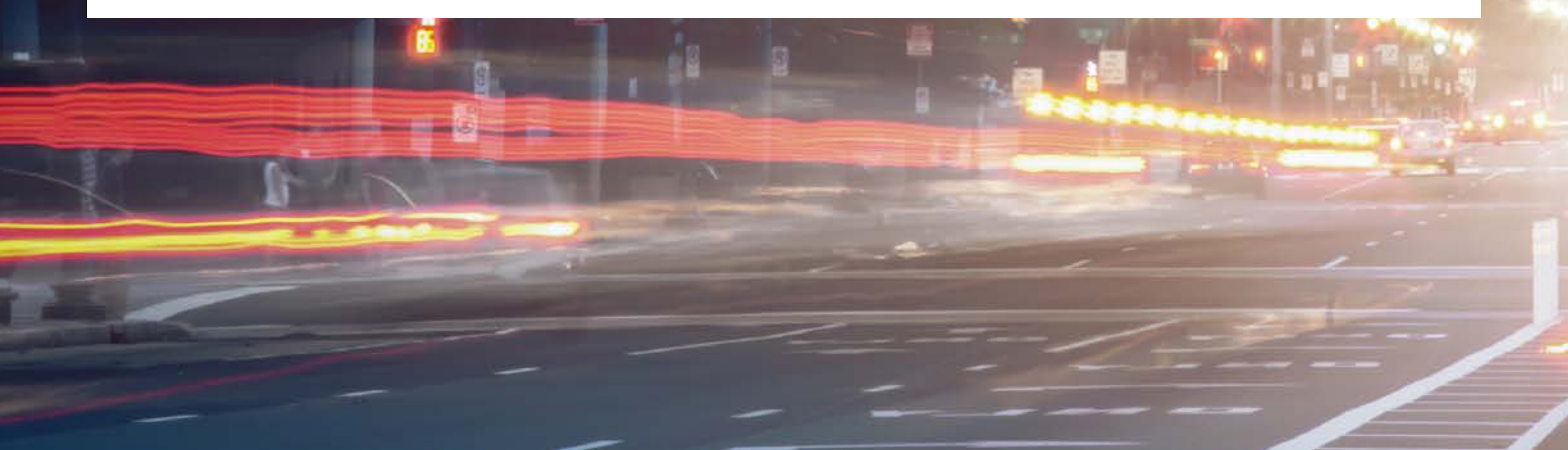
Infrastructure is often seen as a "both-sides-of-the-aisle" issue, yet an agreement has recently been hard to come by. Whether President Biden and his team—particularly Vice President Kamala Harris and Transportation Secretary Pete Buttigieg—will be able to galvanize both sides of the aisle to come together on this shared goal of fixing the widely acknowledged problem of the United States' aging infrastructure remains to be seen.

WHAT TO WATCH

If President Biden is able to rally both parties, a large-scale infrastructure plan would increase spending and economic activity in the short term and could vastly improve productivity in the medium and long term.

Businesses that rely on a supply chain—most industries—could stand to profit from an increase in infrastructure spending. At the same time, most businesses in the country would benefit from a workforce, particularly in rural areas, with expanded access to broadband internet and training programs.

Beyond the issue of improving transportation, there is a broader question of investing in America—as a place to live, to work, and to do business. The United States has always positioned itself as a land of opportunity and possibility. With a strong infrastructure bill that rebuilds, rather than papers over, key areas of infrastructure, the United States—and the businesses based here—stand to gain in the short and long term.



PRIORITY: TAX INCREASES ON THE TABLE

President Biden has made it clear that he is willing to consider raising individual, corporate and capital gains marginal tax rates, along with tax treatments of other issues such as pass-through entities, estate taxes and gift taxes, in part to help offset costs of the ARPA and other priority spending packages. During the campaign, he floated raising taxes on those making $400,000 per year and above, in addition to increasing corporate taxes from 21% to 28%.

Tax rates have been a hotly discussed topic since the 2017 Tax Cuts and Jobs Act (TCJA) was passed without bipartisan support. However, while Democrats control the White House and both chambers of Congress, it remains difficult—but not impossible—to see a standalone tax reform bill passing through the Senate due to filibuster rules. The use of the Budget Reconciliation procedures to pass tax legislation, therefore, continues to be a point of discussion.

However, the Biden administration is finding ways to make progress against their tax goals. Included within the ARPA were what resulted in several tax hikes such as removing deductions for wealthy individuals and corporations as Congressional Democrats sought to balance certain tax cuts—for example waiving taxes on unemployment benefits.

> *All eyes will be on Washington the next couple of years as the Biden administration and this Congress move to advance their tax policy through the various means available to them. Regardless of what tax policy looks like by the midterm elections, one thing is clear: the need for a strategic tax function is more evident than ever. The potential advantages to a strong approach to local, state, federal and international taxes are huge—the tax department should be seen as a strategic center for every organization.*

MATT BECKER
BDO National Managing Partner of Tax

In addition, the corporate tax rate increase to 28% proposed as part of the infrastructure plan will no doubt be subject of great debate in Congress as well. Whether the final infrastructure bill includes this exact tax change remains to be seen. Regardless, there will be other opportunities for the Biden administration to introduce incremental change in tax policy, but the future of sweeping legislative reform is still uncertain.

The ***2021 BDO Tax Outlook Survey,*** which polled senior tax executives at middle market companies, outlined key takeaways on the tax landscape.

Top concerns:

- **35% federal income tax rate changes**
- **25% international tax changes**
- **24% payroll tax adjustments**
- **17% trade & tariffs**

92% of tax executives believe the U.S. federal corporate **tax rate will increase** within the next year

Click here to see the full report.

WHAT TO WATCH

For tax professionals keeping a close eye on the Biden administration's approach to corporate tax rates, there is good reason to assume that there will be increases to rates at some point during the first two years of President Biden's term.

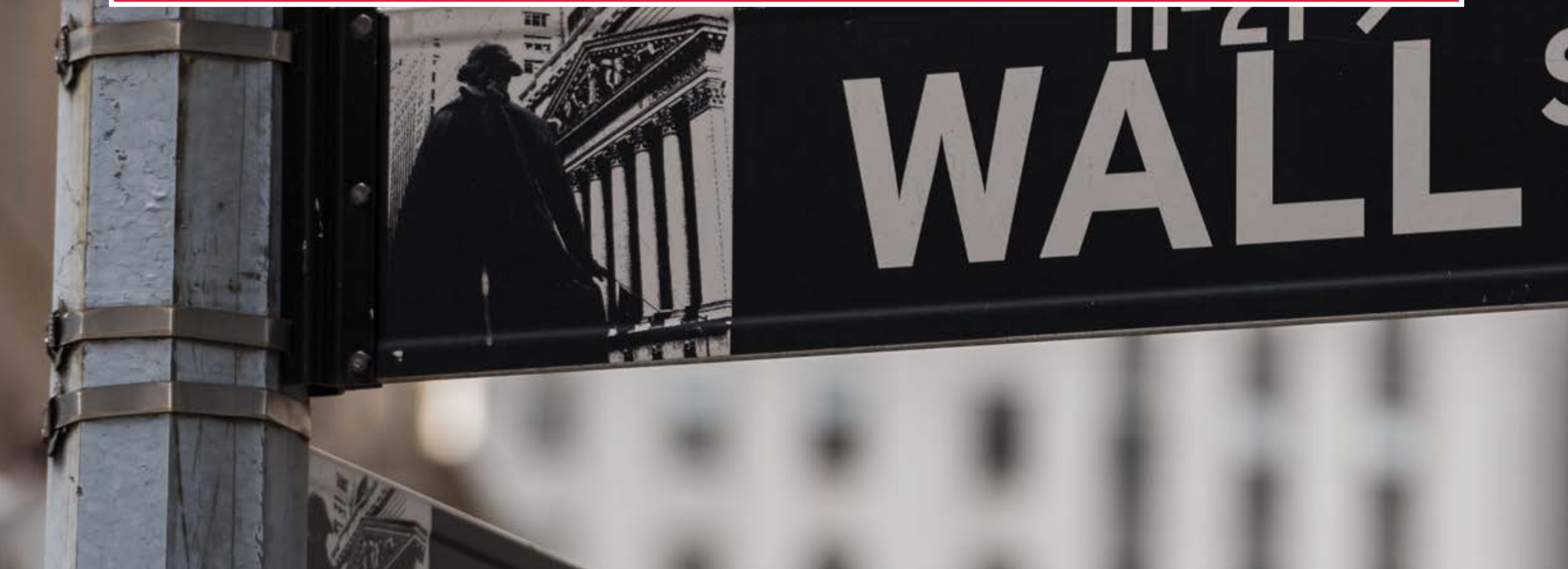
In addition to the corporate rate, there is potential to reinstate the corporate alternative minimum tax, increase the global intangible low-taxed income (GILTI) rate, and enhance policies that promote a wider U.S. tax base, small business deductions, and other assorted surtaxes and tax credits centered on keeping jobs—and tax bases—within the United States.

The questions around how that will happen, and when the effective date would be, remain.

Depending on the results of the midterm elections, following 2022, there is a chance that any tax-only bill that includes broad tax increases would be a non-starter. Until then, whether there ends up being comprehensive tax reform pre-midterms, minor tweaks of the 2017 TCJA, or something in between, there are certain things that tax professionals are expecting and can begin to plan ahead for.

For a deeper view into the legislative path to tax reform under a Biden administration, including a look into the different potential ways that tax changes could take shape, **read our guide here**.

For tax services information, **click here**.



PRIORITY: REGULATING WALL STREET

The Biden administration wasted no time in establishing its stance on regulation of the financial services industry, appointing Gary Gensler as head of the Securities and Exchange Commission and Rohit Chopra to direct the Consumer Financial Protection Bureau. Both Gensler and Chopra have already signaled their intent for increased oversight and enforcement.

In general, the Biden administration aims to be more aggressive in enforcement over the financial sector than his predecessor. While the Federal Reserve and the Department of the Treasury may play the most high-profile roles in the financial markets during the next four years, particularly on the topic of setting interest rates and issuing government debt, respectively, other agencies such as the SEC, the CFPB, the CFTC and others will take steps to increase enforcement of financial regulation.

WHAT TO WATCH

As has been the case in recent years, a Democratic presidential administration typically translates to increased regulation and tougher oversight.

Regardless of the administration, robust regulatory reporting and compliance has transformed in recent years from merely a necessity to a potential competitive advantage. As local, state, national and global regulations continue to evolve, businesses that have **healthy data governance systems** and strong compliance procedures will be able to stay ahead of the curve.

WHAT A BIDEN ADMINISTRATION MEANS FOR BUSINESSES

Businesses are being tasked at the moment with navigating a challenging economic recovery while at the same time performing a duty to their customers, their communities and the environment around them. Understanding the political landscape and priority policies of this Administration will help executives make better decisions about their own futures, in the short and long term.

With the ARPA signed into law and the vaccine rollout well under way, the Biden administration has already shifted gears from pandemic response to its other priorities. With a midterm election quickly approaching, President Biden and his allies in Congress will want to make as much progress as possible over the next two years—and businesses should be prepared for swift movement in ESG, innovation, infrastructure, tax policy and other areas of focus.

The challenges of the past year have brought with them enormous opportunities for businesses to embrace change, transform themselves in new and better ways, and lead with purpose with an eye toward the future. What exactly a post-pandemic economy looks like remains to be seen, but the organizations that thrive tomorrow will be those that emphasize innovation, compassion, resilience and purpose today.

WAYNE BERSON
BDO CEO

However, whether President Biden is able to make progress on everything he has set out to accomplish remains to be seen. In a hyper-partisan environment, one where the pendulum may soon—potentially as early as 2023—swing back to a divided government, compromise is rare and trust in the federal government is at historical lows. When progress is slow, leaders step up to fill the void—and that leadership role may ultimately fall to the private sector.

Businesses can—and should—play a role in driving the change they want to see. Over the course of the Biden administration, corporate policy should be shaped not only by new rules and regulations, but by the pursuit of a higher purpose.