

Marmore First Take

Tax Cuts and Jobs Act

*Corporate America
Measures Impact*

April 2018

Highlights

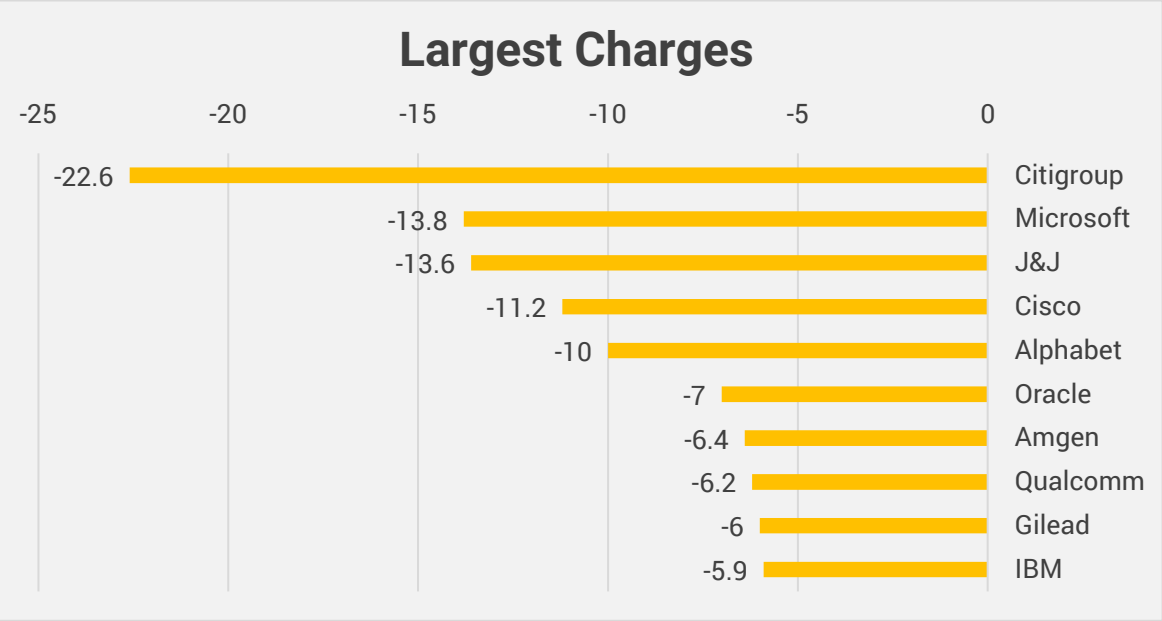
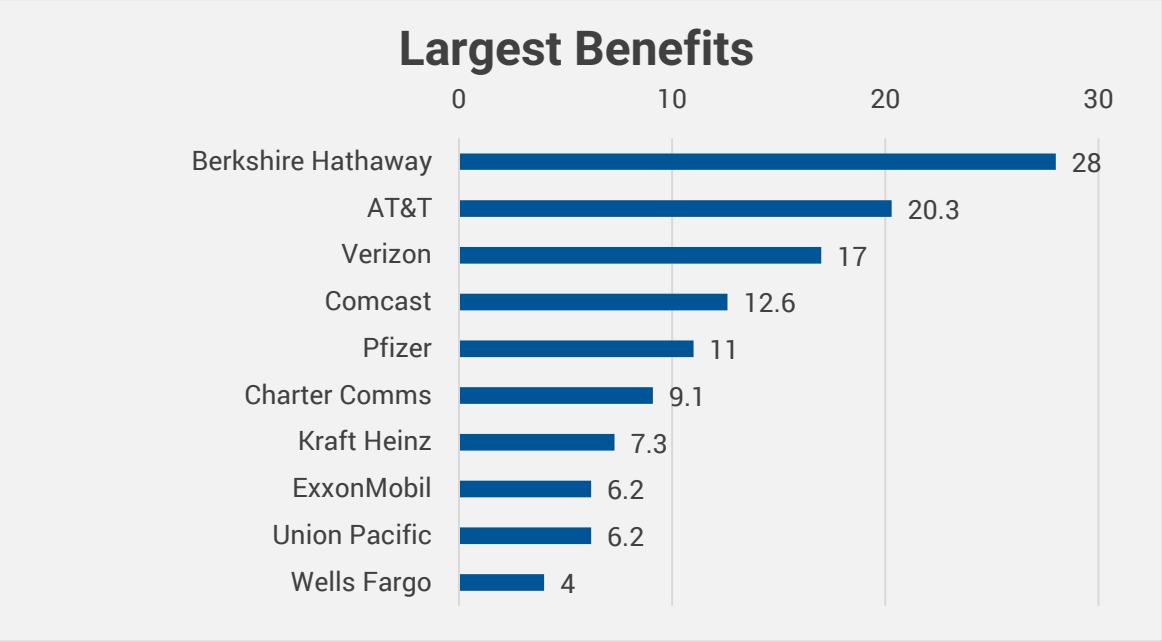
- The big tax overhaul in the U.S called Tax Cuts and Jobs Act (TCJA) includes provision for limiting deduction of net interest expenses, expensing short lived investments in full and eliminating corporate alternative minimum tax. It is expected to reduce corporate tax rate to 21% in 2018 from the current rate of 35%.
- TCJA could help largest 500 companies in the U.S to reduce taxes between \$75b to \$100b thereby uplifting profitability by 8%. Nearly 3/5th of these companies have announced bonuses, hikes, and increment in 401(k) contributions.
- A CNBC/Fed survey forecasts nearly 50% of the tax benefits to the companies can be used in paying dividends, buyback of shares and 13% in repayment of debts. Only 12 % will go to employees in the form of increased salaries and the rest 23% would be used to create new capital.
- Though changes based on a company's tax provisions it made before TCJA, deferred tax assets and liabilities (DTA & DTL) will have significant adjustments owing to the lower tax rate. DTA will take a hit to its value while DTL would account for gains.
- Multinationals with large cash offshore would take a hit as TCJA has provisions for a one time levy on past profits held abroad. Although companies can spread payments over the next 8 years.
- The top U.S tech companies are not in a hurry to spend their overseas cash (nearing \$500b) with the exception of Apple, which promised to create over 20,000 domestic jobs. The rationale behind it is the already low borrowing cost and few hurdles of increasing investments.
- Share buybacks and dividends are expected to further stimulate U.S equity markets; increasing the value of asset management companies like Federated Investors Inc. and Franklin Resources Inc.
- Banks will see more money rolling in their investment banking and wealth management units. But the reduction in interest expenses deductions will impact earnings negatively, especially for banks with large exposure to real estate and commercial loans.
- The accounting adjustments of the one off charges cut \$18bn from the current book value of leading public companies. 61% of the companies reporting a combined net income tax expenses of \$168bn and the rest recorded one-off net tax benefits of \$150bn majorly reflecting revaluation of deferred tax balances under lower headline tax rate².
- Citigroup experienced the biggest accounting hit of \$22.6bn, equivalent to its operating profit before taxes of last year, as the new tax regime reduced its huge losses it recorded during the financial crisis. Similarly, Berkshire Hathaway gained nearly \$29bn, the largest one-off tax benefit, as it cut deferred income tax items by \$35.6bn-a \$6.6bn of tax bill ate part of the benefits.
- Big retailers seem to win on many fronts as the majority of their income is generated domestically. Changes in individual tax rate will increase purchasing power of middle and low income consumers further improving retail sales.
- AT&T, under the new tax plan, will be investing \$1bn in capital investments in upgrading their networks. Not just Telecom, oil-and-gas companies are set to be big winners as well, they pay second-highest effective tax sector at 37 percent³.

¹ Credit Suisse

² FT research

³ Bloomberg Intelligence

Tax Cuts and Jobs Act caused big one-off tax accounting adjustments (USD bn)
(Top 100 US companies by market cap)



Source: FT research

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About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

Our aim

Advocate intellectual research on MENA economies, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

