

SOM Macro Strategies

State of the Markets: Strategies for Trumpanomics Tax Reform

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State of the Markets: Strategies for Trumpanomics--Tax Reform

- ***Step 1: Macro Theme: Trumpanomics***
 - The goal of Trump's economic policy is to push real growth up to 3.5-4% and add 25 MM new jobs in the next 10–years
- ***Step 2: Fundamental Economic Framework***
 - Growth in the US is below historical norms because of slowing investment and productivity
 - Investment growth reflects in part the headwinds of US corporate tax policy and Dodd-Frank
 - Demographics and the impact of retiring baby boomers is a headwind to labor growth
 - Any policy must be massive to offset these hurricane force economic headwinds
- ***Step 3: Find Potential Catalyst***
 - If fully implemented, Trump economic policy would be massive enough to move the needle of economic growth
 - Corporate tax reform could push economic growth above 3% all by itself with relatively small increase in Federal debt
 - Dodd-Reform could push growth even higher by unleashing bank lending in housing and small businesses
 - Energy and infrastructure policy could add to this growth through a build out of US shale energy, particularly nat gas
- ***Step 4: Find Asymmetric Trade***
 - Trade 1: Buy US Equities
 - Trade 2: Buy US Regional Bank
 - Trade 3: Buy Mortgage Insurers
 - Trade 4: Buy Home Builders
 - Trade 5: Buy a Basket of Energy Infrastructure Equities
 - Trade 6: Higher Rates—Buy Payer Swaptions

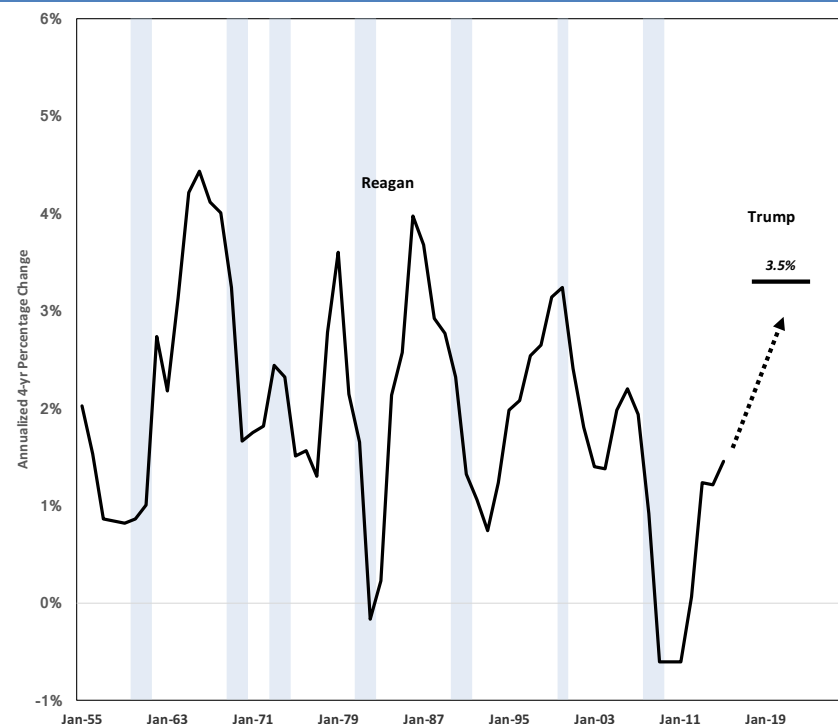
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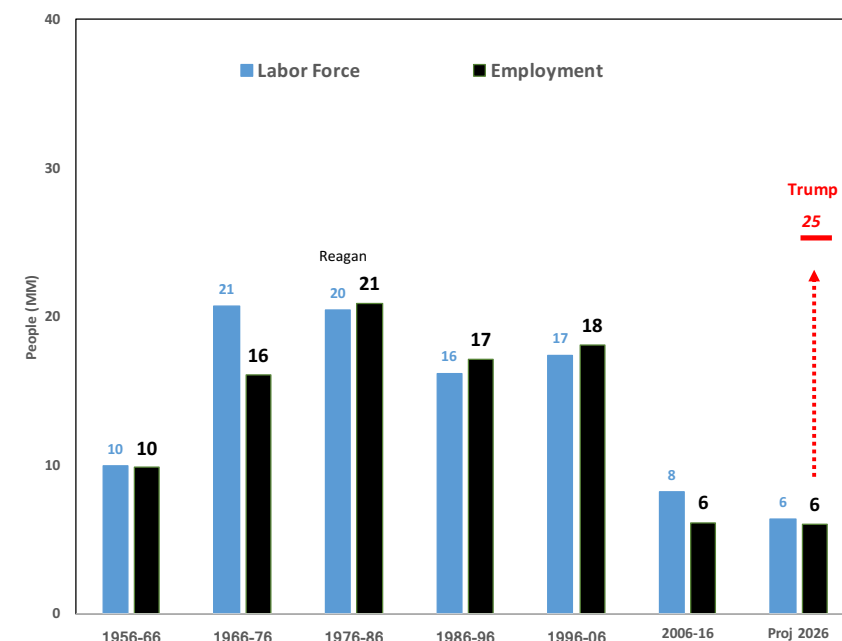
Step 1: Macro Theme

Trump's Economic Plan Is Reaganomics: Create 25 million new jobs and 3.5-4% real GDP Growth

Achieving Real Capita GDP of Reagan Era Looks Daunting ¹



Reaching 25 mm New Jobs Looks Nearly Impossible ^{2,3,4}



1. St.Louis Federal Reserve (FRED)
2. Author uses and average of BLS/CBO projections
3. BLS Projections 2014-2024
4. CBO Projections 2016-2017

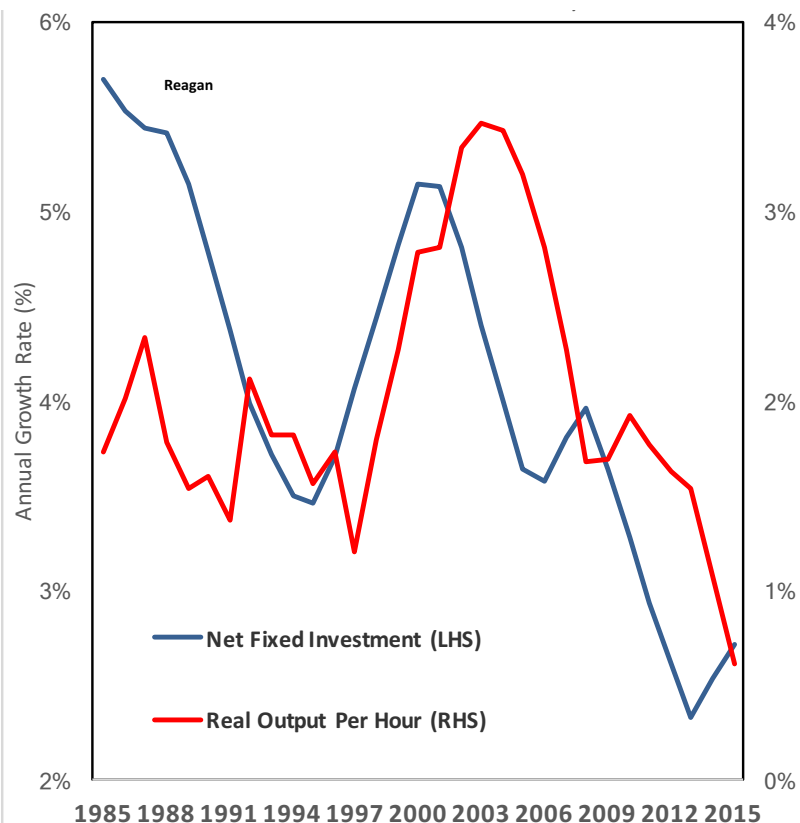
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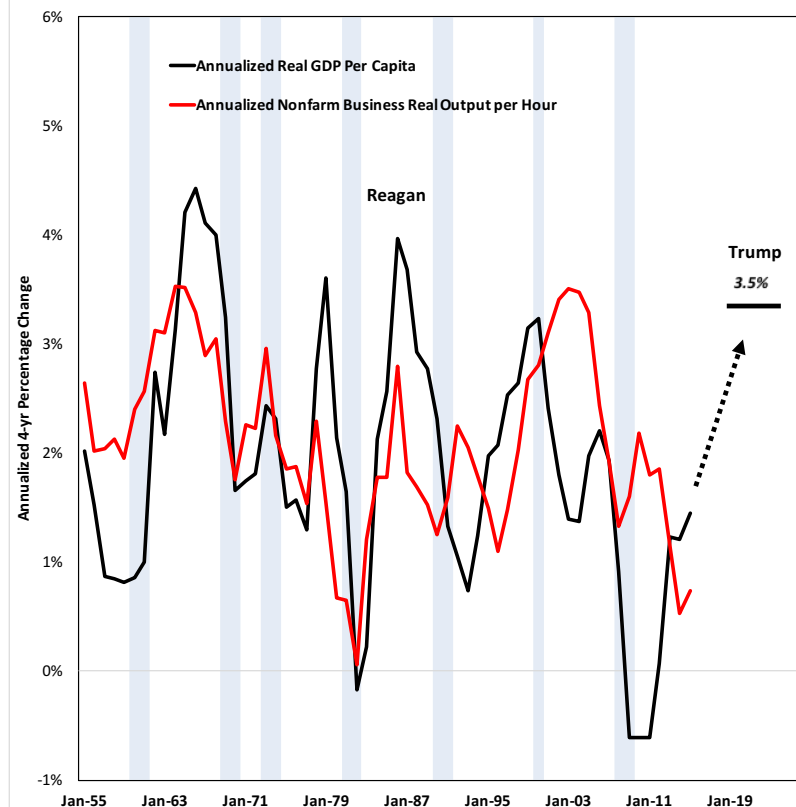
Step 2: Fundamental Economic Framework

Achieving Growth Targets Means Reversing the Decline in Investments and Productivity¹

Fall In Productivity Driven In Part By Fall in Net Investment



Fall in Productivity Has Lead To A Decline in Economic Growth



1. St. Louis Federal Reserve (FRED)

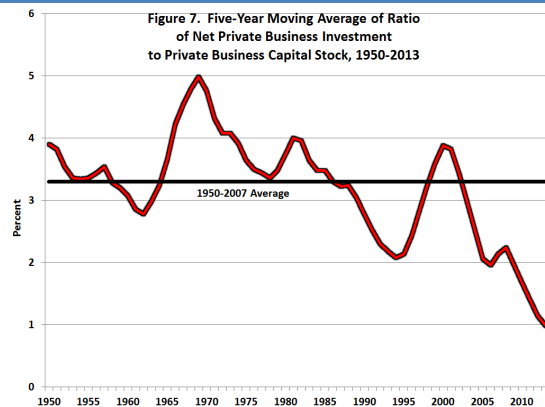
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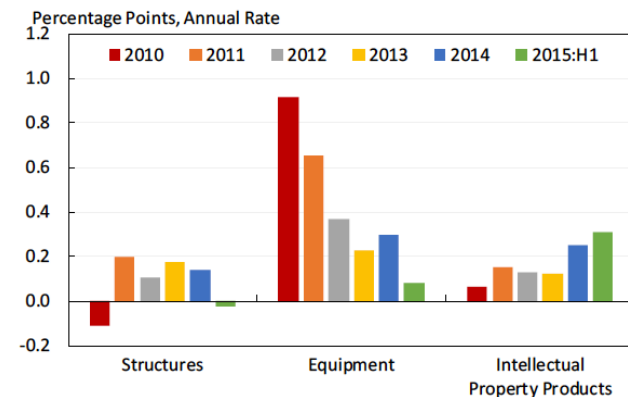
Step 2: Fundamental Economic Framework

Technology Investment Not Enough To Offset Impact of Fall in Fixed Investment on Productivity

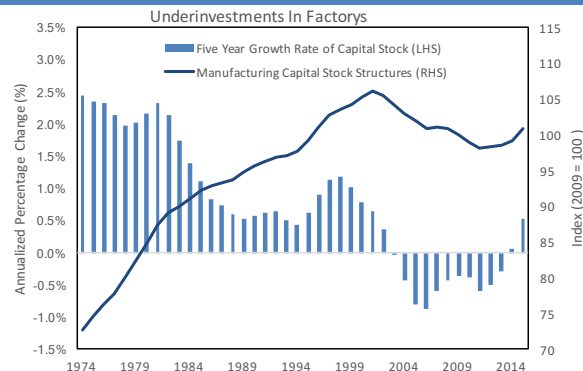
Gross Investment Is Mostly Being Offset By Depreciation ¹



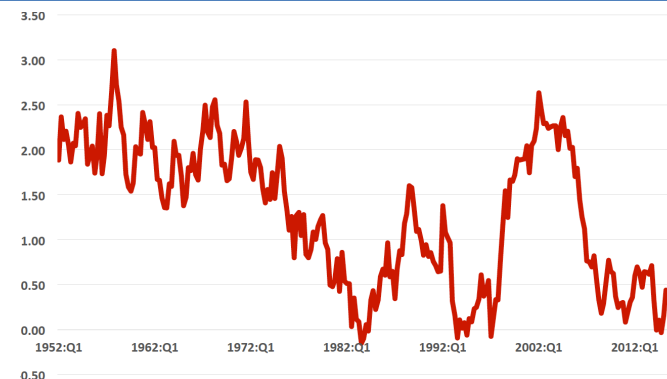
Clearly A Transition From Fixed Investment to Software ³



Factory Capital Has Actually Shrunk ²



But Business Productivity Has Still Ground to A Halt ¹



1 Gordon, "Secular Stagnation on the Supply Side", Presented at the Conference on the Underwhelming Global Post-Crisis, June 2015

2. BEA

3. Furman, "Business Investment in the United States: Facts, Explanations, Puzzles and Policies", Remarks to the Progressive Policy Institute, September 2015

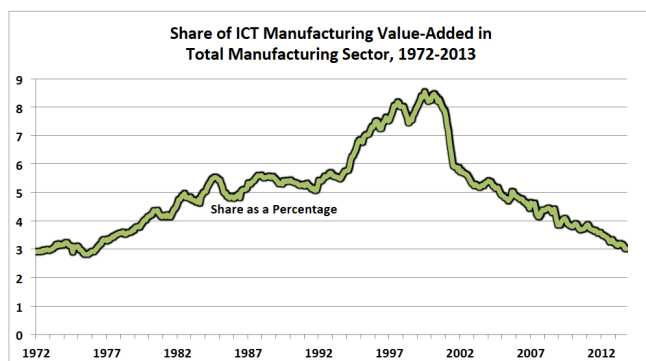
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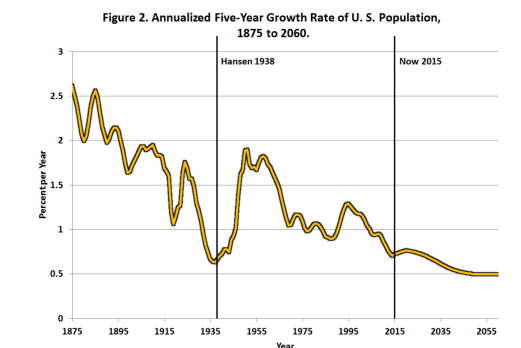
Step 2: Fundamental Economic Framework

The Tailwinds From Tech and Population For Economic Growth Have Turned Into Headwinds

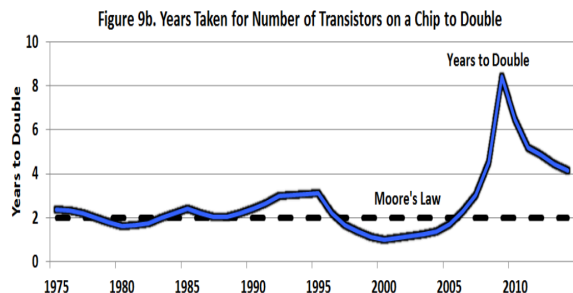
The Impact Of Tech on the Economy Is Ebbing As...²



Population Growth is Declining ²

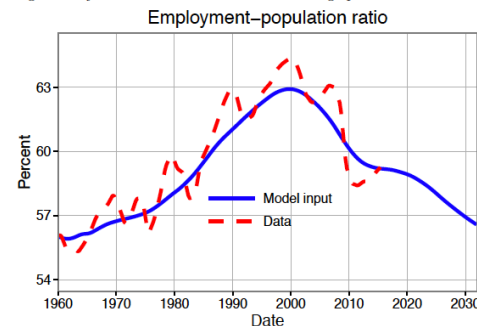


Moore's Law is Failing ²



Compounding the Impact of The Fall in Participation Rate ¹

Figure 9: Dynamic simulation under baseline demographics: other variables



Source: Intel Corporation website

1. Gagnon, Schmittsen, Lopez-Sardao, "Understanding the New Normal", Federal Reserve Working Paper, 2016-080

2 Gordon, "Secular Stagnation on the Supply Side", Presented at the Conference on the Underwhelming Global Post-Crisis, June 2015

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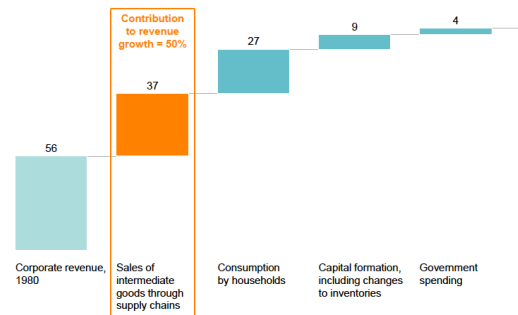
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Step 2: Fundamental Economic Framework

New “Tech” Economy Creating Many Issues And Potential Headwinds To Sustainable Economic Growth

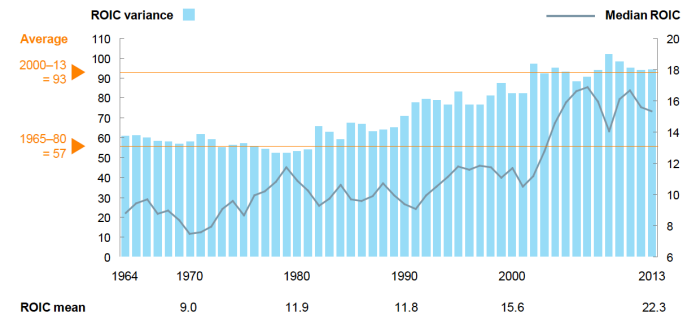
“Tech” Economy Takes Advantage of Offshoring Production ²

Global corporate revenue, 1980–2013
\$ trillion, real



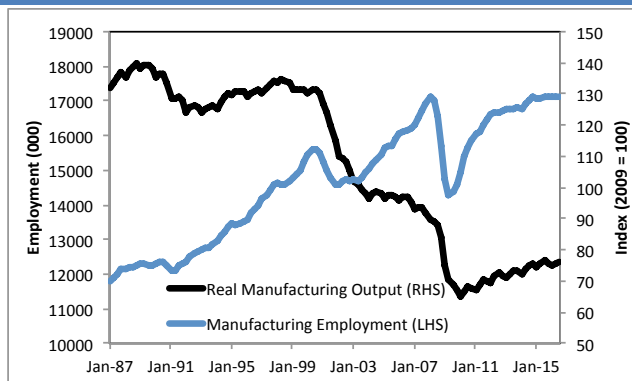
It Has Also Created A Winner Take All Economy ¹

Variance in return on invested capital (ROIC) for North American firms, 1964–2013¹
%

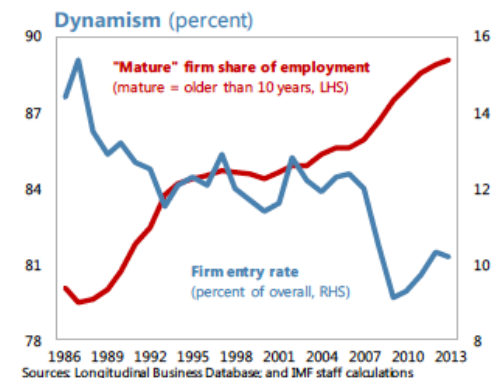


¹ Firms included in this analysis had more than \$200 million in revenue in at least one year during this period as well as ROIC between zero and the 95th percentile. “Variance” is defined as the ratio of standard deviation to mean.

This Has Lead to Substantial Job Losses In Manufacturing ³



Creating Bigger Firms From Winners But Fewer Small Ones ¹



Sources: Longitudinal Business Database, and IMF staff calculations

1. IMF, USA Article IV Report, June 2016
2. McKinsey Global Institute, “Playing To Win” September 2015
3. Data access through Fred, St. Louis Federal Reserve

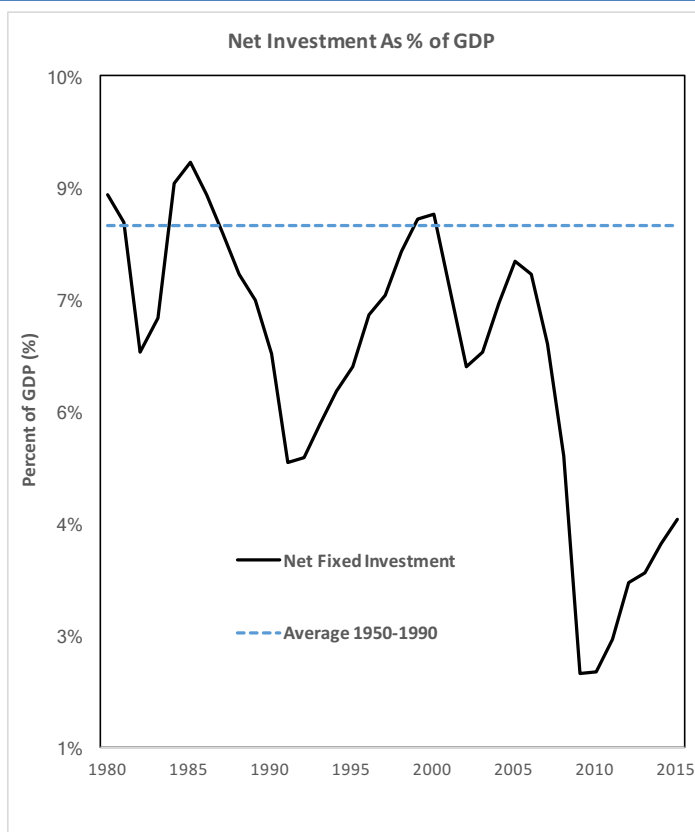
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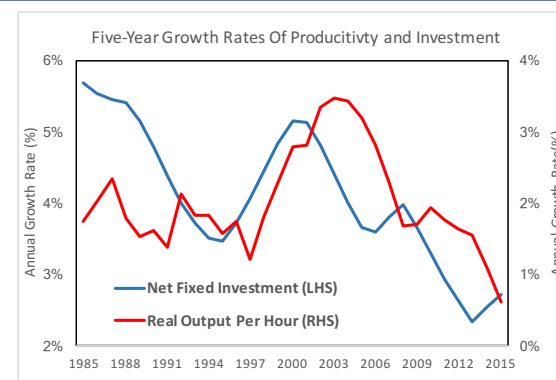
Step 2: Fundamental Economic Framework

Trump Policies Must Spur Investment to Offset These Issues And Recreate The Growth of The 1960s

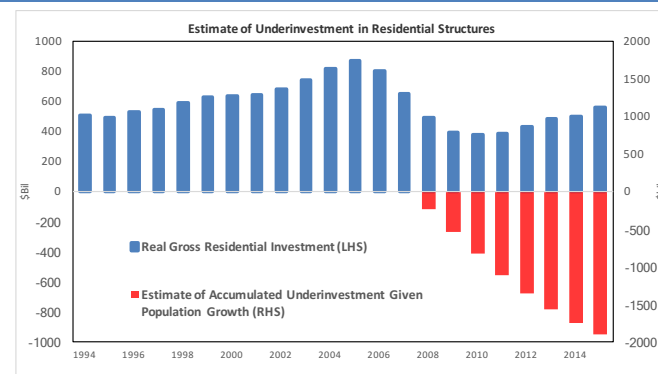
Investment Has Fallen Substantially Since the GFC ¹



Not Surprisingly, Productivity Has Fallen As Well ¹



Fall Is Measured In The Trillions (Example of Housing) ^{1,2}



1. Data Access through Fred, Federal Reserve Bank of St. Louis
2. Authors calculations

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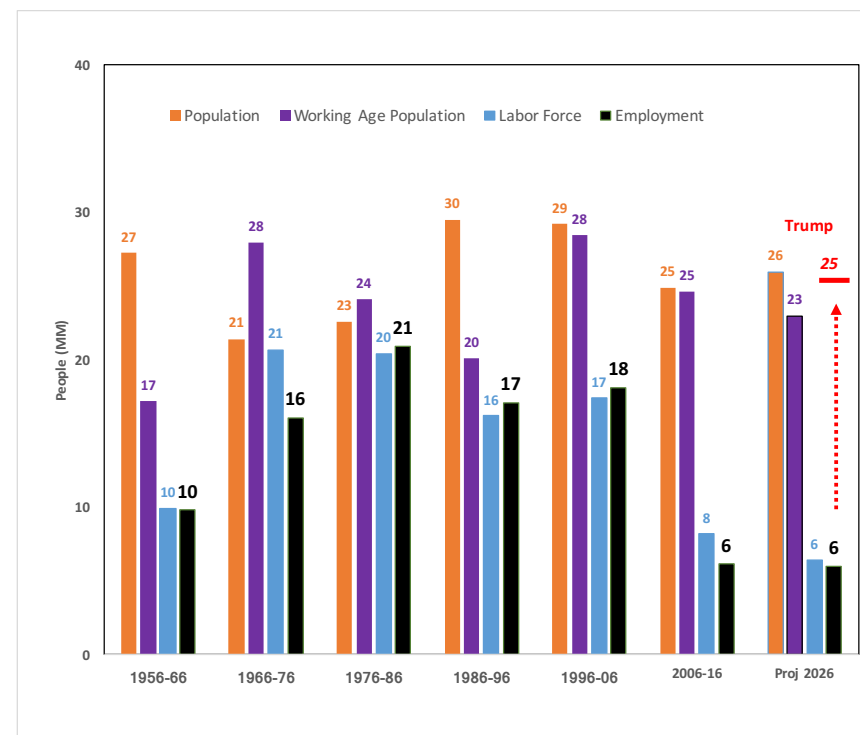
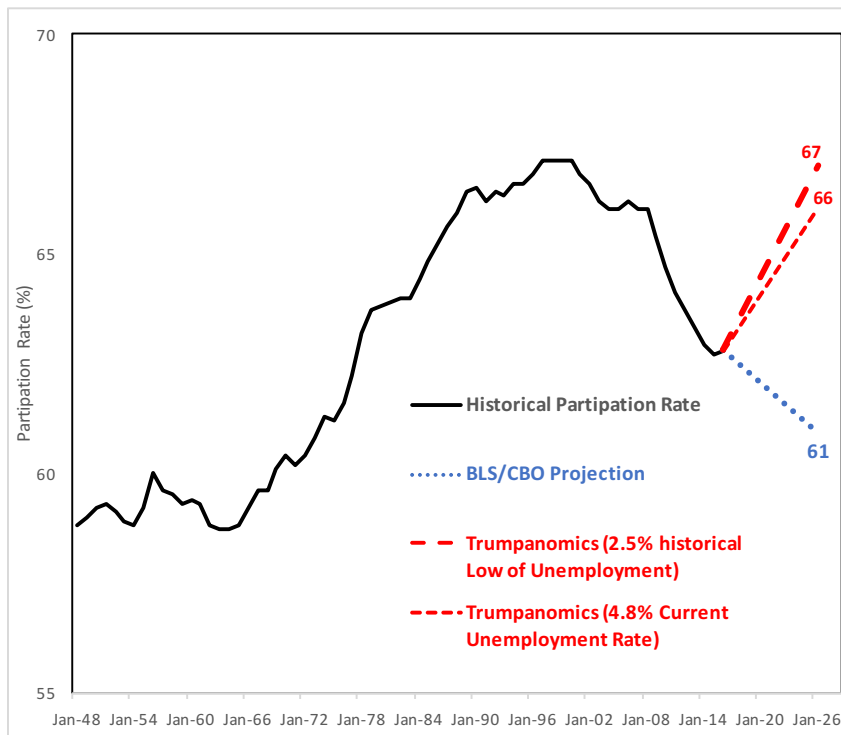
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Step 2: Fundamental Economic Framework

Population Growth Will Not Enough To Replace Baby Boomers

Only Path Leads To Getting Participation Rate Back to Peaks

Demographics Are A Headwind to Reagan Labor Growth^{1,2,3,4}



1. US census
2. Author uses and average of BLS/CBO projections
3. BLS Projections 2014-2024
4. CBO Projections 2016-2017

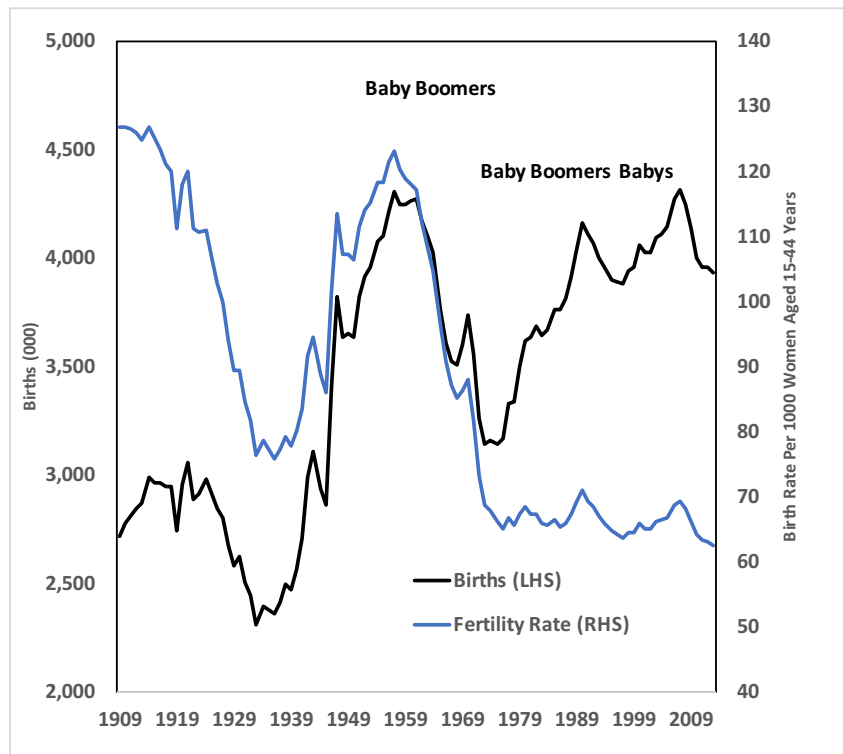
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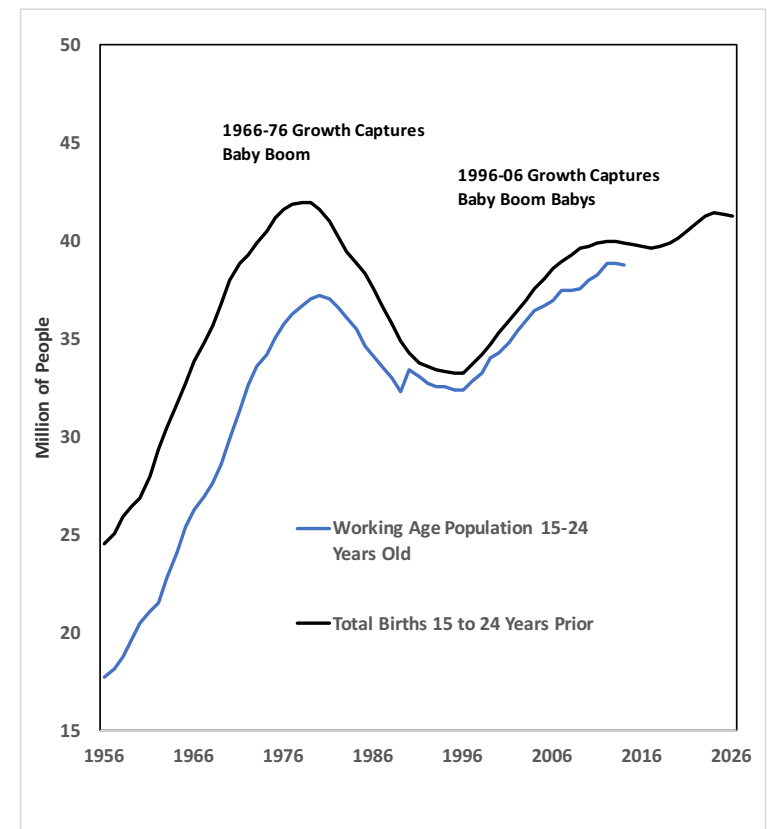
Step 2: Fundamental Economic Framework

Focus On 25 MM Jobs Misses The Distortion of The Past By The Baby Boomer Generation

Births and Fertility Rates USA 1909-2015 ¹



Path of the 15-24 Year Old Working Age Pop and Births ^{1,2}



1. CDC Vital Statistics
2. BLS

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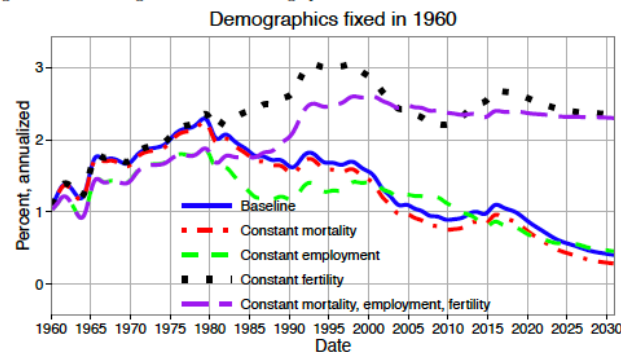
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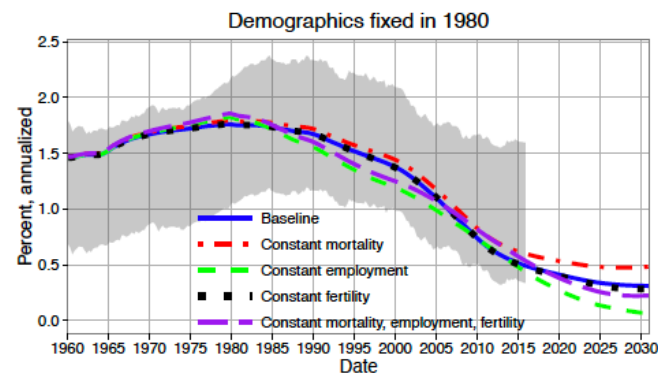
The Headwinds To Higher US Growth Is a Hurricane... So, The Offsetting Force Must Be Even Stronger

With the Demographics of the 1960s, There Would Be Hope ¹

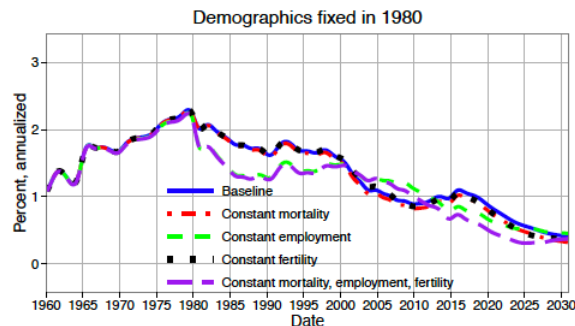
Figure 13: Real GDP growth rate with demographic variables fixed in either 1960 or 1980 onward



Demographics Could Push Rates Even Lower Form Here ¹



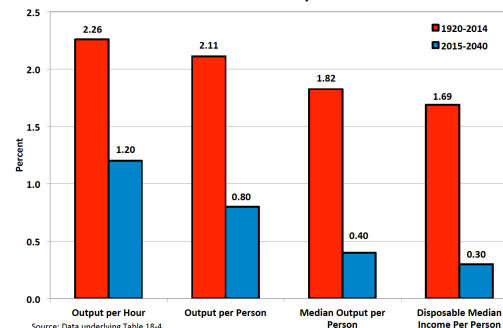
However, It May Already Be Too Late ¹



Source: Authors' model simulations.

The Headwinds to Growth Are Large Without Productivity Growth ²

Figure 18-5. Annual Growth Rate of Alternative Real Income Concepts, Actual Outcomes 1920-2014 and Projected Values 2015-2040



1. Gagnon, Johannsen, Lopez-Salido, "Understanding the New Normal", Federal Reserve Working Paper, 2016-080

2. Gordon, "Secular Stagnation on the Supply Side", Presented at the Conference on the Underwhelming Global Post-Crisis, June 2015

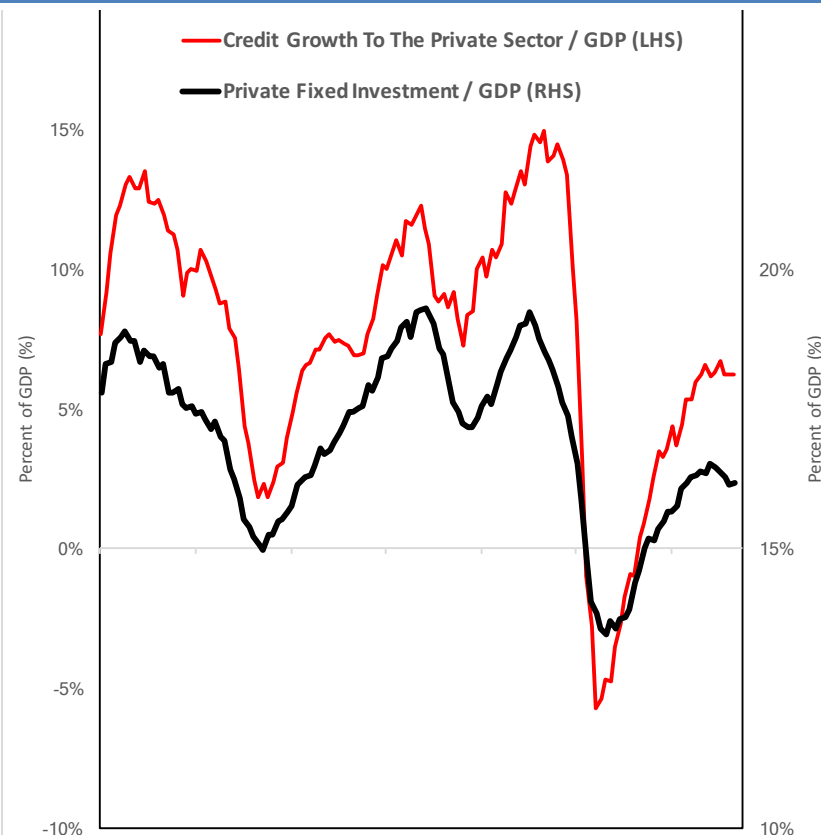
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Low Level of Fixed Investment and Anemic Credit Growth

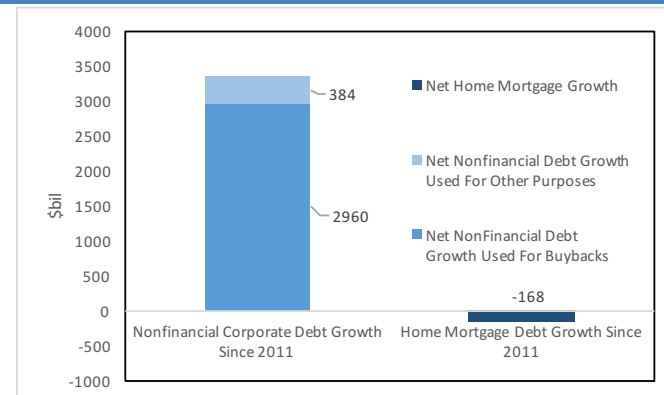
Investment and Credit Have Not Rebounded From the GFC



The Housing Sector Has Been Almost Flatlined Even With Low Rates



Corporations Are Buying Back Stock Not Investing ²



1. Federal Reserve Bank of St. Louis (FRED)
2. Board of Governors of The Federal Reserve, Flow of Funds Report

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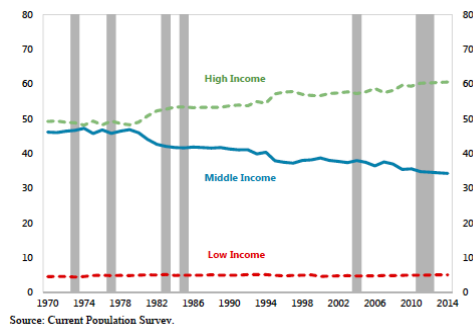
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New Economy Has Created Wealth and Income Inequality While Creating the Rust Belt in The Midwest

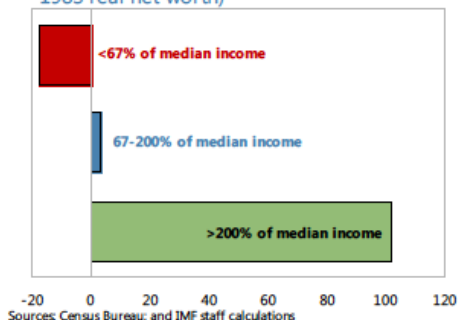
Income Inequality Is Growth ¹

Figure 5. Income Shares, 1970-2014 (percent of total) /1
 Low Income: Households with less than 50 percent of median income
 Middle Income: Households with 50-150 percent of median income
 High Income: Households with more than 150 percent of median income

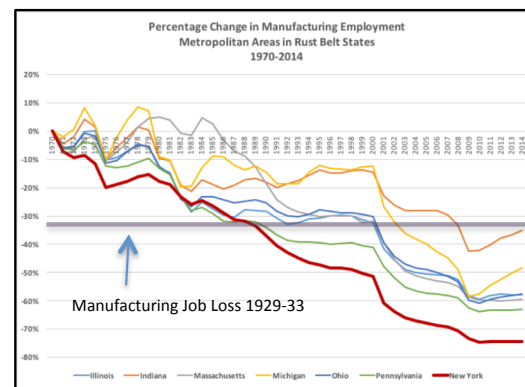


Wealth Inequality is Growing As Well ¹

Household Real Net Worth (percent of 1983 real net worth)



The Rust Belt Job Lost Worse than The Great Depression ²



Median Income Has Fallen Substantial In The Rust Belt ³

City	Real Median Income (000)		
	1970	2015	Change
Pittsburgh	41.3	40.7	-1%
Cleveland	45.9	26.2	-43%
Buffalo	42.3	31.9	-25%
Detroit	51.1	25.7	-50%
USA	41.3	51.4	24%

1. IMF, USA Article IV Report, June 2016
2. Bacheller, "The Decline of the Manufacturing in New York and the Rust Belt", Blog, October 2016
3. Census

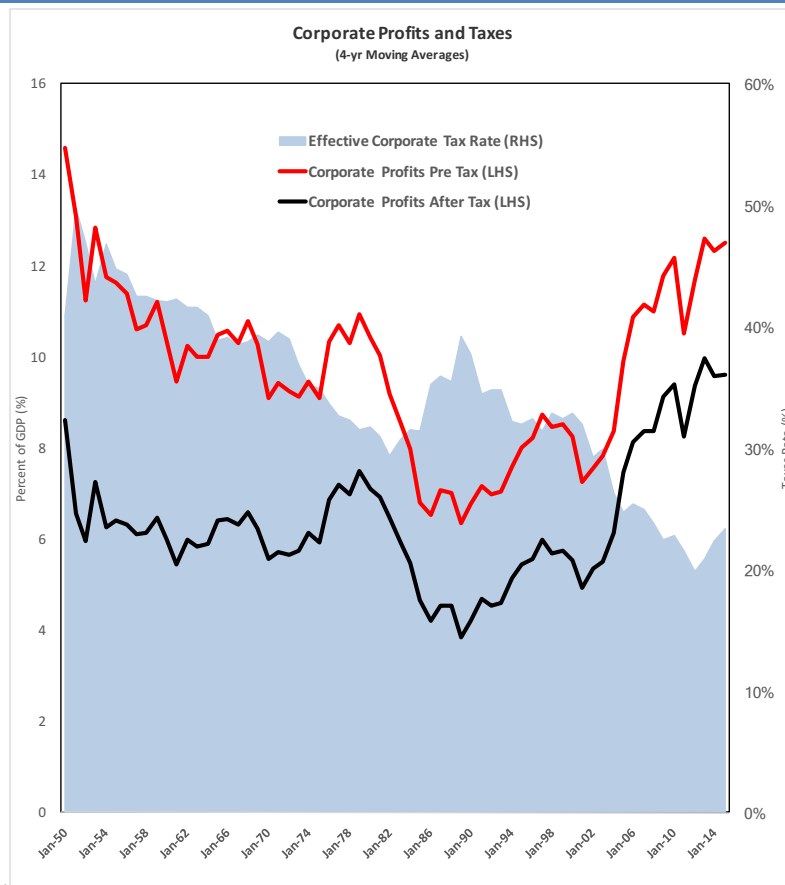
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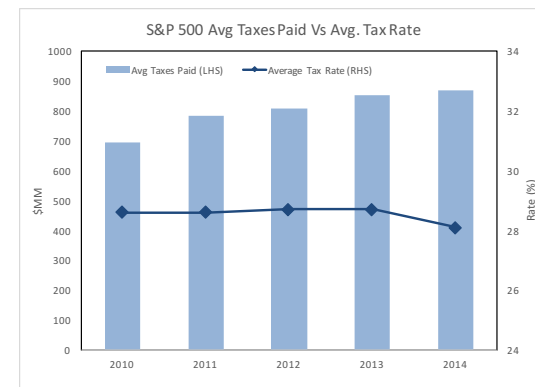
Step 2: Fundamental Economic Framework

High Corporate Tax Rates Create Tax Avoidance and Barriers to Investment

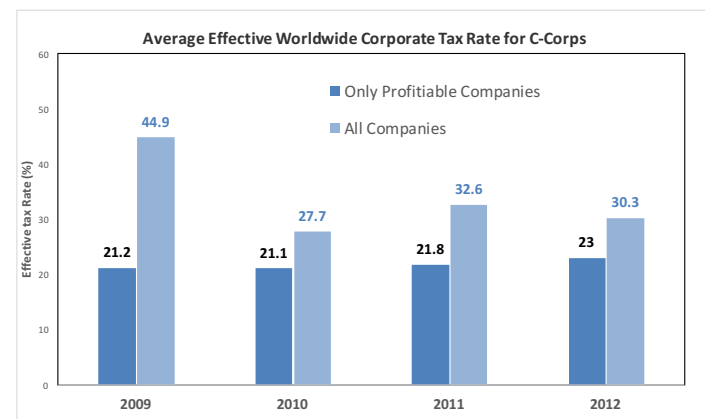
Effective Corporate Tax Rates Are Falling ¹



S&P Companies Pay Significantly Less than Statutory Rate ²



Effective Rate Even Lower Looking at Only Profitable Companies ³



1. Federal Reserve Bank of St. Louis, Fred Data Base

2. Factset

3. GAO, Corporate Income Tax, GAO-15-363, March 2016

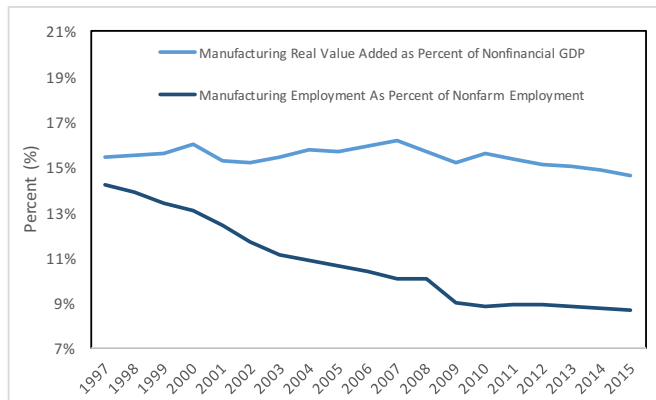
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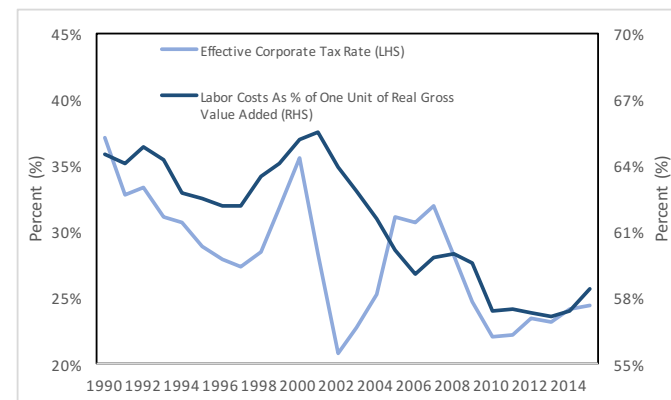
Step 2: Fundamental Economic Framework

Corporate Profit Growth Driven By Tax Avoidance and Lower Labor Costs At The Cost of Investment ¹

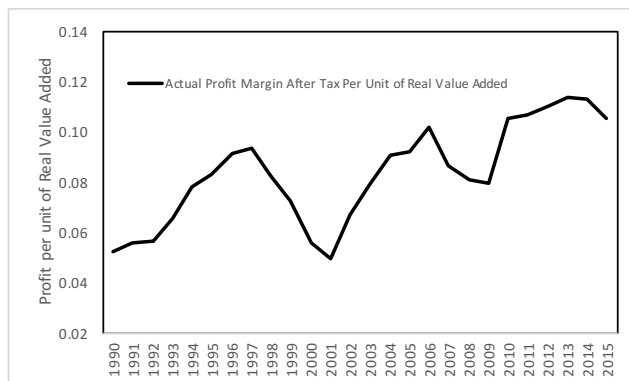
However, More Recently, The Impact on Profit Margins Has Slowed



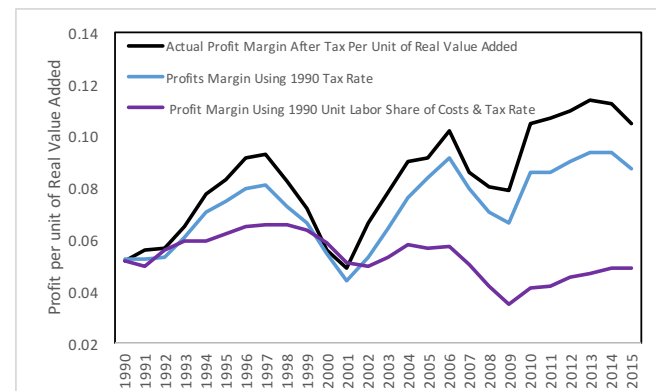
Taking Out Falling Taxes and Labor Costs, Profit Margin Are Down



Profit Margins Have Slowed As Taxes and Labor Costs Have Risen



Productivity Kept Manufacturing Growing While Labor Force Fell



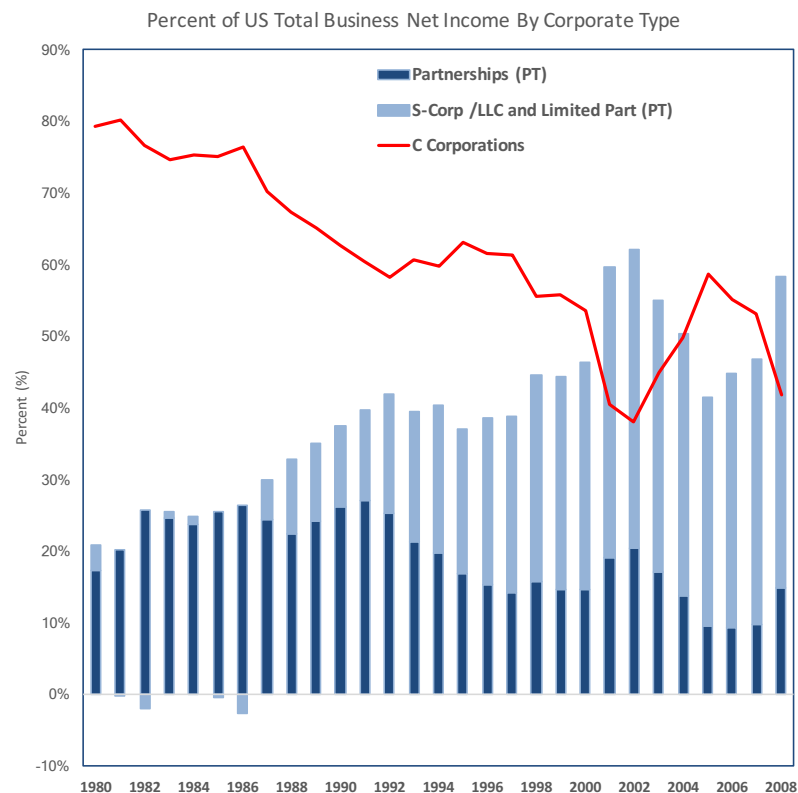
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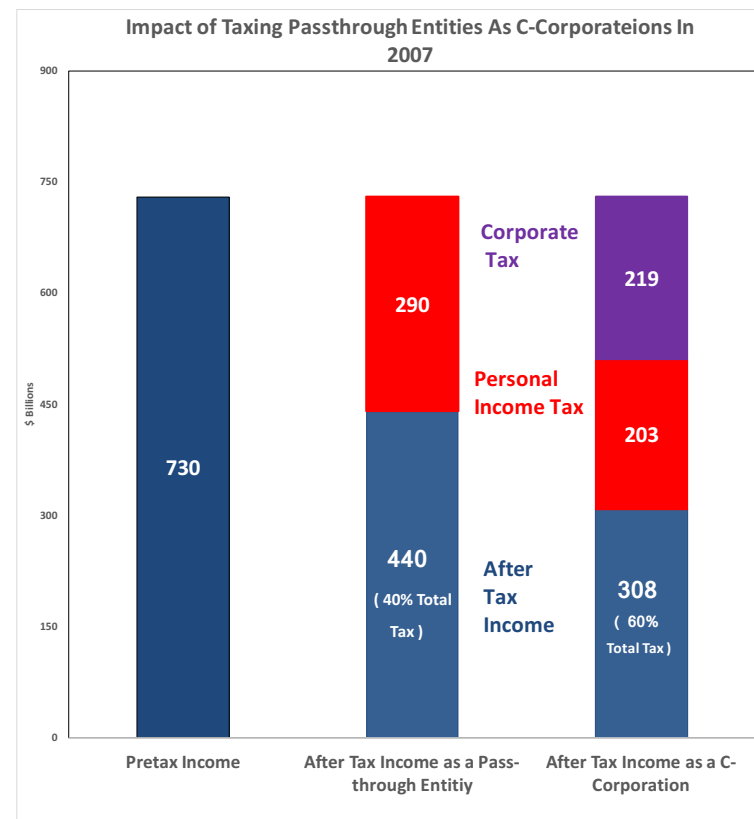
Step 2: Fundamental Economic Framework

Business Are Avoiding Double Taxation By Becoming Pass-Through Entities, e.g. S-corps and LLCs

Pass-Through Entities Growing as Share of Business Incomes¹



Pass-through Entities Pay Personal but Not Corporate Taxes²



1. IRS
2. GAO

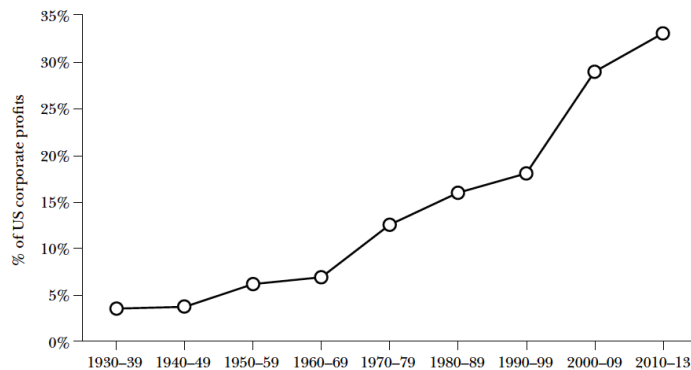
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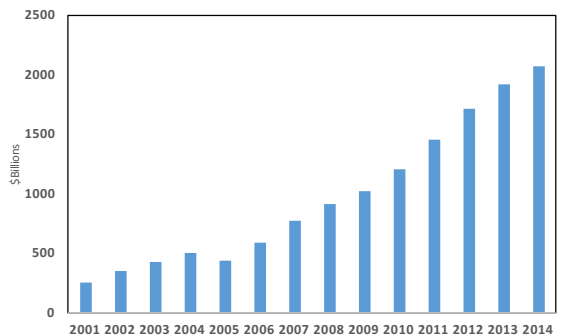
Step 2: Fundamental Economic Framework

C-Corporations Are Avoiding High US Corporate Tax Rates By Keeping Profits Overseas

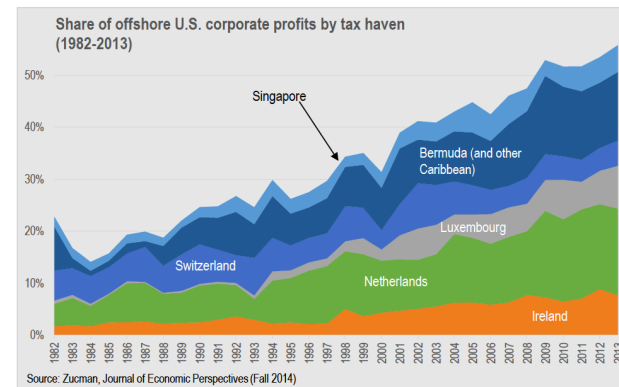
The Share of Profits Made Abroad By US Corporate Profits¹



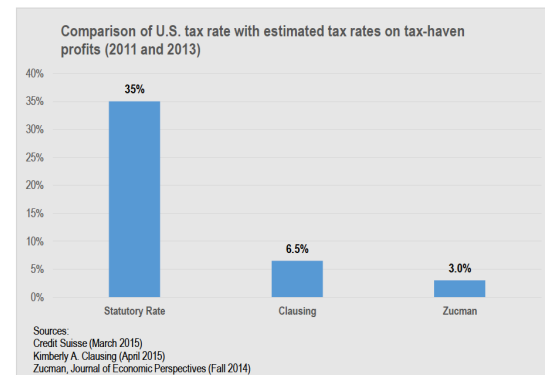
US Corporate Profits Held Overseas²



Over Half of Offshore Profits Held in Tax Havens³



US Corporates Pay About 5% on Profits Vs 35% If Repatriated^{1,3}



1. Gabriel Zucman, Journal of Economic Perspectives, *Taxing Across Borders: Tracking Personal Wealth and Corporate Profits* (Fall 2014), Figure 2, p. 128 and p. 130.

2. Credit Swiss Equity Research, "Parking A-lot Overseas", March 2015

3. Kimberly A. Clausing, *The Nature and Practice of Capital Tax Competition* (April 5, 2015), p. 10.

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Step 3: Find Potential Catalyst

Massive tax reduction in combination with regulatory, trade and energy reform,

Trumpanomics

- **Middle Class Tax relief and Simplification Act**
 - Number of personal income brackets reduce from seven to three, and with simplified tax forms
 - Corporate tax rate reduced from 35% to 15%
- **Regulatory Reform**
 - Reduce the number of regulations
 - Reform Dodd-Frank
- **End of Offshoring Act**
 - Seven point trade policy
 - Establishes tariffs to discourage companies from laying off workers in order to relocate in others countries and ship back to the US tax-free
- **American Energy and Infrastructure Act**
 - Leverages public-private, and private investments through tax incentives, to spur \$1 trillion infrastructure investment over ten years
 - It is revenue neutral

Potential Cost and Upside Of The Original Tax Reform Plan²

Ten-year Revenue and Economic Impact of the Trump Tax Plan by Provision

Provision	Billions of Dollars, 2016-2025		
	Static	GDP	Dynamic
Eliminate the alternative minimum tax	-\$354	-0.3%	-\$428
Cap itemized deductions	\$397	0.2%	\$451
Repeal the Net Investment Income Tax	-\$628	0.7%	-\$447
Eliminate Head of Household status	\$116	-0.1%	\$90
Replace the personal exemption with a larger standard deduction	\$227	0.0%	\$232
Tax carried interest as ordinary income	\$14	0.0%	\$10
Reforms for childcare-related expenses	-\$500	0.1%	-\$461
Allow businesses to choose between interest deductibility and expensing	-\$322	0.6%	-\$192
Eliminate Section 199 and other business expenditures	\$213	-0.2%	\$152
Reforms to capital gains basis	\$48	-0.1%	\$27
Eliminate the estate tax	-\$240	0.9%	-\$24
Consolidate individual income tax to three brackets at 12%, 25%, and 33%	-\$1,418	0.9%	-\$1,205
Lower the corporate income tax rate to 15%	-\$2,122	4.1%	-\$1,044
Enact a deemed repatriation of deferred foreign-source income	\$200	0.0%	\$200
Total under the higher-rate assumption	-\$4,368	6.9%	-\$2,639
(Lower the individual rate on pass-through income to 15 percent)	-\$1,538	1.3%	-\$1,291
Total under the lower-rate assumption	-\$5,906	8.2%	-\$3,932

Source: Tax Foundation Taxes and Growth Model, March 2016
Note: Individual items may not sum to total due to rounding.

1. <https://assets.donaldtrump.com/landings/contract/O-TRU-102316-Contractv02.pdf>
2. Tax Foundation

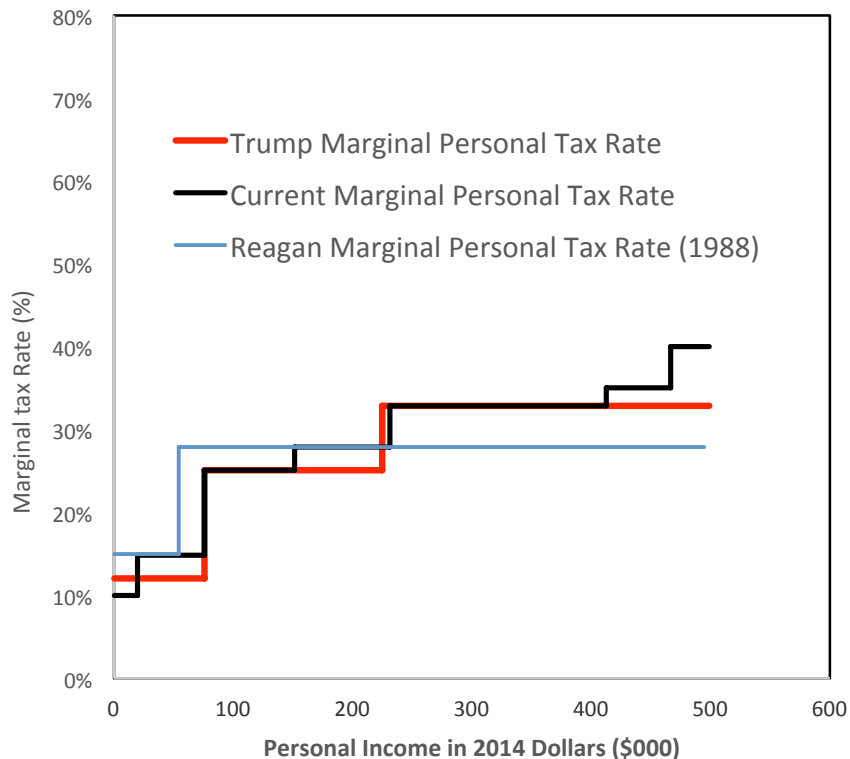
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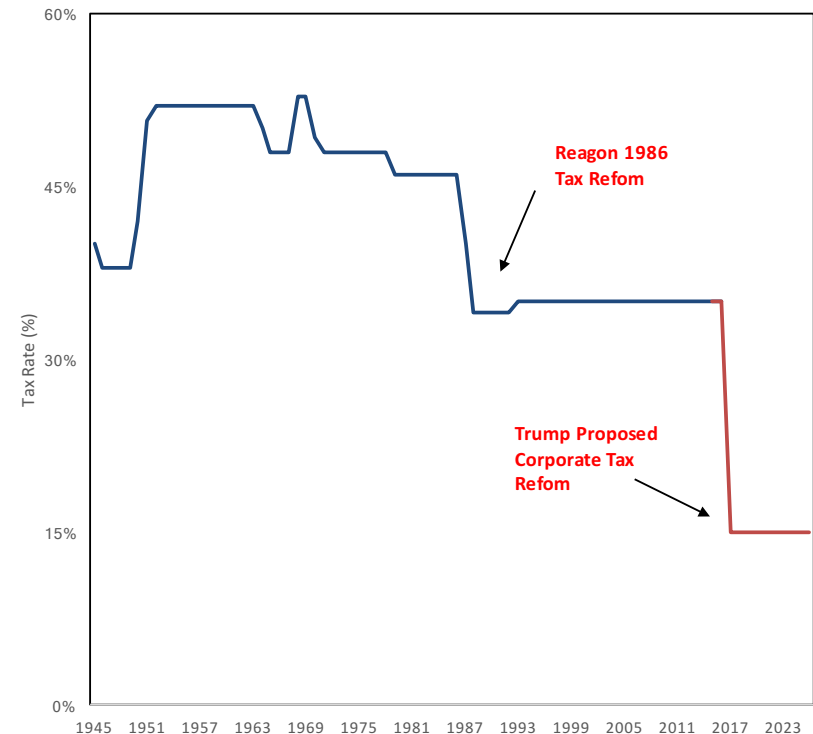
Step 3: Find Potential Catalyst

Trade 1: Buy US Equities--Catalyst of Corporate Tax Reform as Trump Becomes Reagan

Key Features of the Corporate Tax Plan¹



Corporate Tax Cut Significant vs Current and Vs Reagan^{1,2}



1. <https://www.donaldtrump.com/policies/tax-plan/>

2. OMB

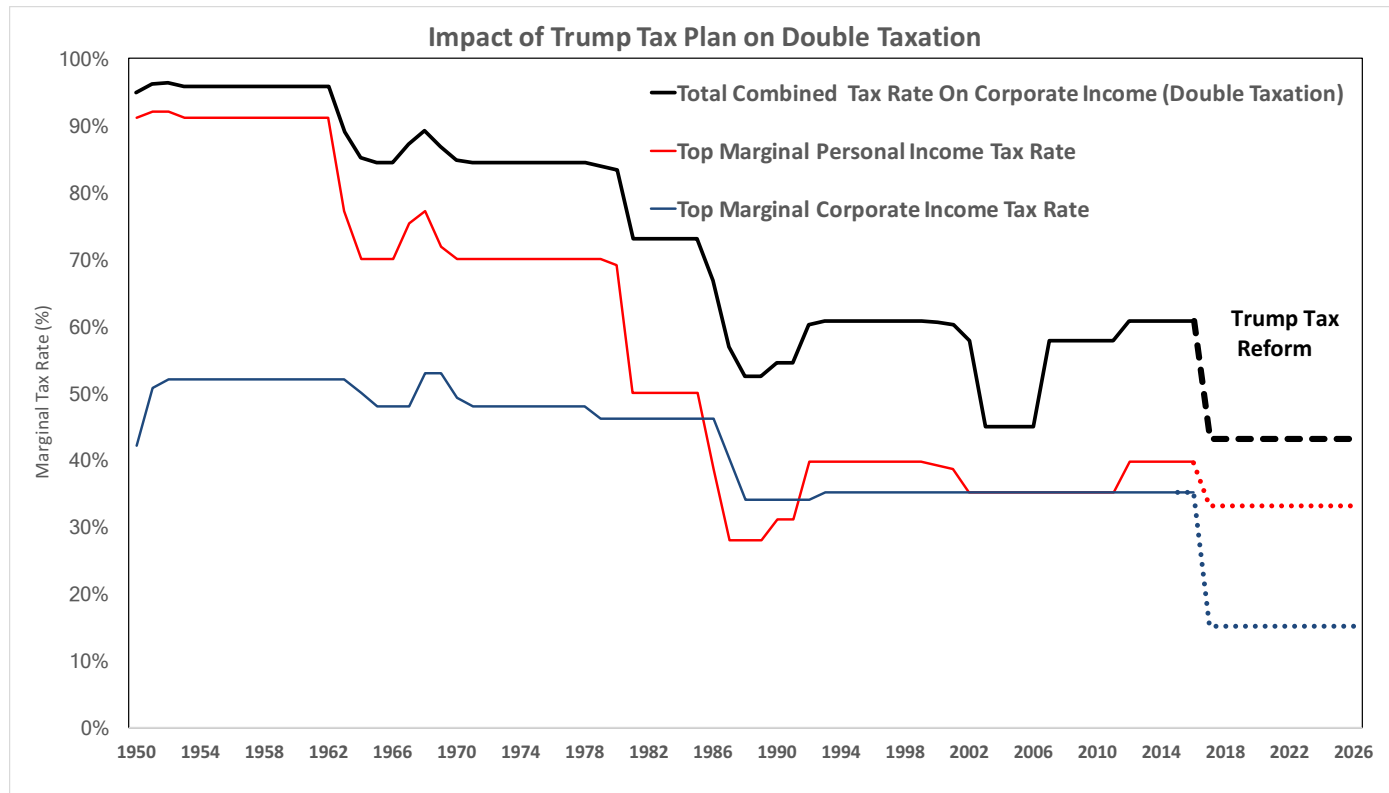
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Step 3: Find Potential Catalyst

Trump Corporate Tax Reform Will Attempt to Address These Issue

Difference Between Pass-through Taxes and C-Corp Taxes Narrowing ^{1,2}



¹ <https://www.donaldtrump.com/policies/tax-plan/>

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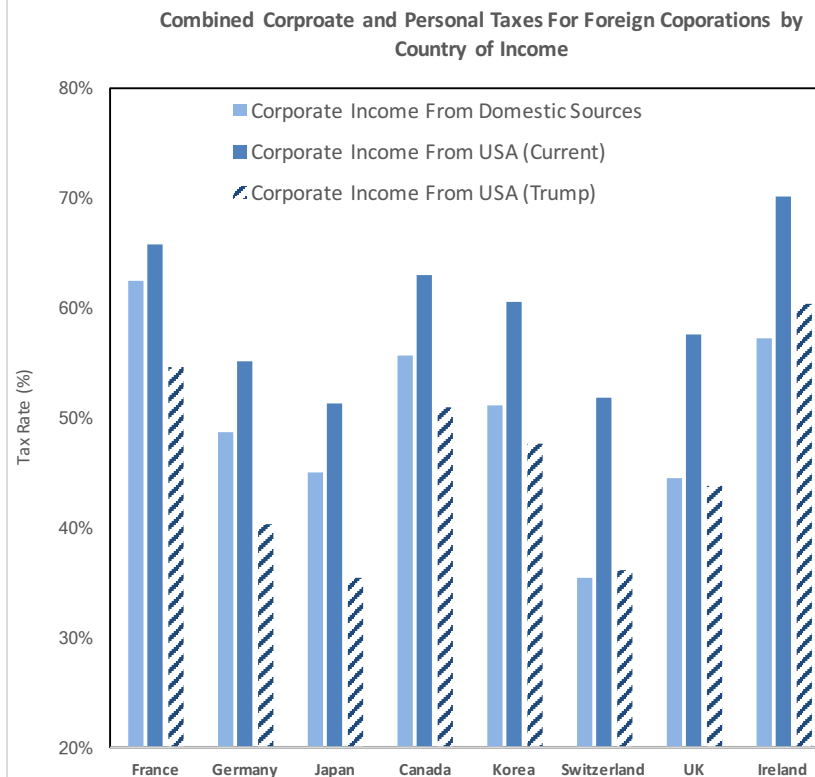
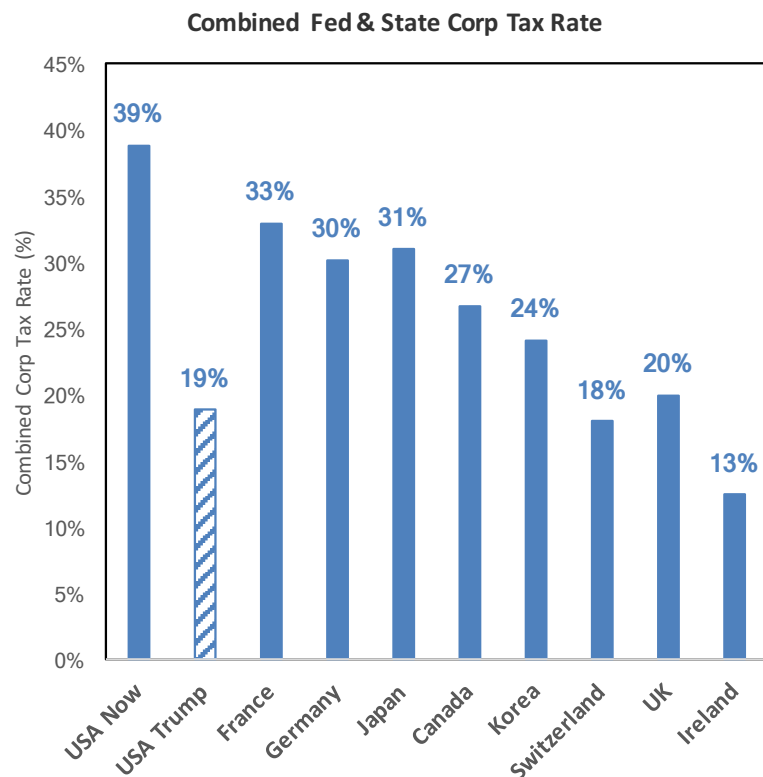
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Step 3: Find Potential Catalyst

Trump Corporate Tax Reform Will Attempt to Address These Issue

Foreign Investment Should Rise As US Offers Lower Total Tax Rates³

Trump Statutory Rates Looks Similar to Low Rates of Tax Havens^{1,2}



¹ <https://www.donaldtrump.com/policies/tax-plan/>

² OMB

³ OECD

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Step 3: Find Potential Catalyst

Potential Issue Is That It Seems to Benefits Wealthy and Will Grow The Federal Debt Substantially

Tax Foundation (TF) Scoring of Plan ¹

Static and Dynamic Distributional Analysis

Changes in After-Tax Incomes

Income Group	Static	Dynamic
0% to 20%	1.2%	6.9% / 8.1%
20% to 40%	0.8%	6.7% / 7.9%
40% to 60%	1.3%	7.7% / 9.0%
60% to 80%	1.9%	7.9% / 9.0%
80% to 100%	4.4% / 6.5%	8.7% / 12.3%
90% to 100%	5.4% / 8.3%	9.3% / 13.7%
99% to 100%	10.2% / 16.0%	12.2% / 19.9%
TOTAL	3.1% / 4.3%	8.2% / 10.7%

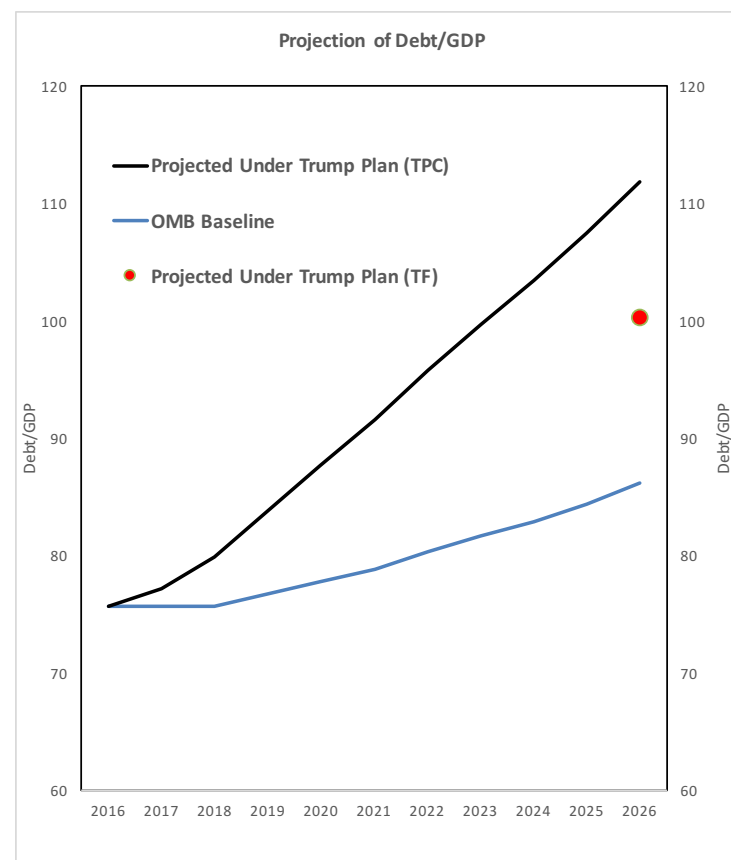
Source: Tax Foundation, Taxes and Growth Model (March 2016 version)

Tax Policy Center (TPC) Scoring of the Plan ²

Expanded cash income percentile ^{b,c}	Percent change in after-tax income (%) ^d	Share of total federal tax change (%)	Average federal tax change (\$)	Average Federal Tax Rate*	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.7	0.8	-120	-0.6	3.7
Second quintile	0.9	2.2	-390	-0.8	8.0
Middle quintile	1.5	5.4	-1,090	-1.3	12.8
Fourth quintile	1.8	8.6	-2,120	-1.5	15.7
Top quintile	7.3	82.8	-24,440	-5.4	20.9
All	4.3	100.0	-4,020	-3.4	16.8
Addendum					
80-90	1.9	6.0	-3,380	-1.5	18.5
90-95	2.9	5.9	-7,170	-2.3	19.6
95-99	8.0	20.1	-31,610	-6.0	19.5
Top 1 percent	14.1	50.8	-317,100	-9.4	24.1
Top 0.1 percent	14.0	24.5	-1,459,720	-9.3	24.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Both Find The Plan As Financed By Debt Growth^{1,2}



1. Tax Foundation, Alan Cole, "Details and Analysis of the Donald Trump Tax Reform Plan, September 2016", No, 528
2. Tax Reform, The First Act of Trumpanomics Center, Jim Nunns, Len Burman, ect, "An Analysis of Donald Trump's Revised Tax Plan", October 18, 2016

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Step 3: Find Potential Catalyst

Scoring the Plan Shows That It May Not Create 25 Million Jobs and 4% Annual Growth

TF Model of Economic Impact of Trump Tax Policy ¹

GDP	6.9% / 8.2%
Capital Investment	20.1% / 23.9%
Wage Rate	5.4% / 6.3%
Full-time Equivalent Jobs (in thousands)	1,807 / 2,155

TPC Model of the Economic Impact of Trump Tax Policy ²

Economic Type	Keynesian Model/PWBM modMI
GDP	0%/-0.5%
Capital Investment	Negative
Wage Rate	Negative
Jobs	Negative

TF Model of The Cost of Trump Tax Policy (\$bill)¹

Tax	Static Revenue Impact (2016-2025)	Dynamic Revenue Impact (2016-2025)
Individual Income Taxes	-\$2,192 / -\$3,730	-\$1,058 / -\$2,458
Payroll Taxes	\$0	\$520 / 612
Corporate Income Taxes	-\$1,936	-\$1,958 / -\$1,959
Excise Taxes	\$0	\$44 / \$52
Estate and Gift Taxes	-\$240	-\$240
Other Revenue	\$0	\$52 / \$62
TOTAL	-\$4,368 / -\$5,906	-\$2,640 / -\$3,932

Source: Tax Foundation Taxes and Growth Model, March 2016.

Note: Individual items may not sum to total due to rounding. Numbers are listed with the higher-rate assumption first and the lower-rate assumption second, where applicable.

TPC Model of The Cost of Trump Tax Policy (\$bill) ²

Tax	Static	Dynamic
Personal Income Taxes	-\$1,800/-3,300	-\$1,800/-3,300
Corporate Income Taxes	-\$2,600	-\$2,800
Payroll + Excise Taxes	0	\$100
Estate Taxes	-\$200	-\$200
Total	-\$4,600/-6,200	-\$4,500/-6,100

1. Tax Foundation, Alan Cole, "Details and Analysis of the Donald Trump Tax Reform Plan, September 2016", No, 528
2. Tax Policy Center, Jim Nunns, Len Burman, ect, "An Analysis of Donald Trump's Revised Tax Plan", October 18, 2016

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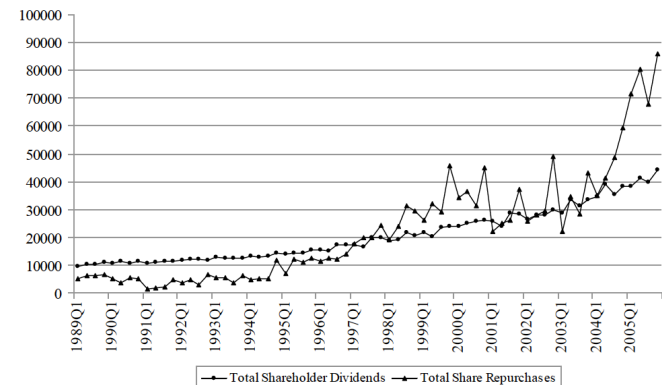
Step 3: Find Potential Catalyst

In 2004, Repatriation Did Nor Reduce Incentive to Hold Overseas: The Lesson of Fungibility of Capital

The 2004 Repatriation Corporate Tax Holiday

- US companies could dividend back foreign held profits and be tax at at 5.25% rate
- Companies needed to file a plan that showed they were going to use it for investment not buybacks or dividends
- Roughly 40% of money came back and it seemed to be used to buyback stock and cut jobs

Corporations Appeared to Use Money For Buybacks...²



Profits Came Back From Tax Havens ¹

Country of Source of Dividends	Number of Corporatet Entities	Total \$billions
Netherlands	149	89.8
Switzerland	78	32.4
Bermuda	47	31.8
Ireland	68	25.6
Luxemburg	40	23.4
Canada	244	21.5
Cayman	55	18.4
UK	206	16.9
Other Countries		52.1
Total		311.9

And To Cut Jobs And Grow Profits Held Overseas ¹

Company	JOBES Act Repatriation Amount (\$ Billions)	Jobs Lost in 2005-2006	Pre-JOBES Act Accumulation of Foreign Earnings (two years, \$ Billions)	Post-JOBES Act Accumulated Foreign Earnings (\$ Billions)
Pfizer	37	10,000	29	60
CitiGroup	3.2	n/a	6	21
Merck	15.9	7,000	18	17
Hewlett-Packard	14.5	14,500	14	8
Proctor & Gamble	10.7	unspecified # lost	14	17
IBM	9.5	n/a	18	18
PepsiCo	7.5	200-250	9	15
Motorola	4.4	unspecified # lost	6	4
Honeywell	2.7	2,000	3	4
Ford	0.9	30,000-40,000	n/a	n/a
National Semiconductor	0.5	5% of workforce	n/a	n/a
Colgate-Palmolive	0.8	4,000	n/a	n/a

1. Congressional Research Service, Marples, Gravelle, "Tax cuts on repatriation earnings as economic stimulus" May 27, 2011

2. Blouin, Krull, "Bringing It Home: A study of the Incentives surrounding the repatriation of foreign earnings und the American Jobs Creation Act of 2004", working paper, May 2009

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Step 3: Find Potential Catalyst

Strategies To Reduce the Side Affects of The Trump Plan: The Example of The House Republican Plan ¹

House Republican Plan Could Make Trump Plan Revenue Neutral

Provision	Billions of Dollars, 2016-2025		
	Static	GDP	Dynamic
Eliminate the alternative minimum tax	-\$354	-0.3%	-\$428
Eliminate all itemized deductions except for the mortgage interest and charitable contributions deduction	\$2,331	-0.4%	\$2,218
Eliminate most personal credits	\$104	0.0%	\$104
Tax capital gains and dividends as ordinary income, allow a 50% deduction for capital gains, dividends, and interest	-\$609	0.3%	-\$531
Allow full expensing of capital investments	-\$2,236	5.4%	-\$883
Disallow interest deduction on new loans	\$1,194	-0.1%	\$1,176
Border adjust business taxes	\$1,069	-0.4%	\$936
Eliminate section 199 and all business credits, and limit net operating loss deductions	\$701	-0.1%	\$677
Repeal the estate and gift taxes	-\$241	0.9%	-\$20
Expand and consolidate the standard deduction, replace the personal exemption with a dependent credit, and expand the Child Tax Credit	-\$127	0.0%	-\$112
Consolidate individual income tax brackets into three of 12 percent, 25 percent, and 33 percent	-\$1,954	1.5%	-\$1,641
Tax income derived from pass-through business at a maximum rate of 25%	-\$515	0.6%	-\$388
Lower the corporate income tax rate to 20%	-\$1,807	1.7%	-\$1,325
Enact a deemed repatriation of deferred foreign-source income	\$185	0.0%	\$185
Move to a territorial tax system	-\$160	0.0%	-\$160

Plan Pays For Itself From Revenue Growth Economic Growth

Ten-Year Revenue Impact of the House Republican Tax Plan (Billions of Dollars)

Tax	Static Revenue Impact (2016-2025)	Dynamic Revenue Impact (2016-2025)
Individual Income Taxes	-\$981	\$566
Payroll Taxes	\$0	\$683
Corporate Income Taxes	-\$1,197	-\$1,324
Excise taxes	\$0	\$57
Estate and gift taxes	-\$240	-\$240
Other Revenue	\$0	\$68
Total	-\$2,418	-\$191

Source: Tax Foundation Taxes and Growth Model, March 2016.
Note: Individual items may not sum to total due to rounding.

Projected Economic Growth Even Higher

Economic Impact of the House Republican Tax Plan

GDP	9.10%
Capital Investment	28.30%
Wage Rate	7.70%
Full-time Equivalent Jobs (in thousands)	1,687

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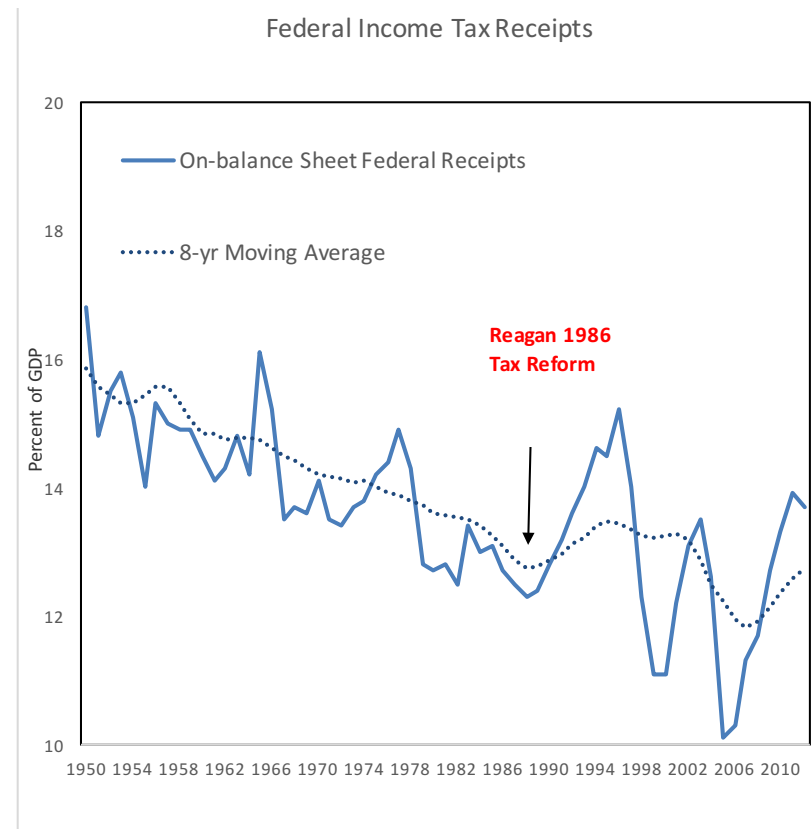
Step 3: Find Potential Catalyst

Reagan Faced With The Same Trade-offs Made Tax Cuts Revenue Neutral

Reagan Tax Cuts and Trade-offs ¹

- Personal taxes
 - Brackets moved from 13 to 2 (12%,28%)
 - Deductions limited
 - Smaller IRA
 - Capital gains taxed as dividends
 - Higher AMT
- Corporate tax rates
 - Top bracket went from 46% to 34%
 - Repeal of investment tax credit
 - Lengthened depreciation life of structures
- Results
 - Was basically revenue neutral, tax cuts paid for by broadening base, reducing deductions and taxing capital and investments
 - **Net positive for households and negative for investment**

Tax Cuts Were Largely Revenue Neutral ²



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Step 4: Find Asymmetric Trade

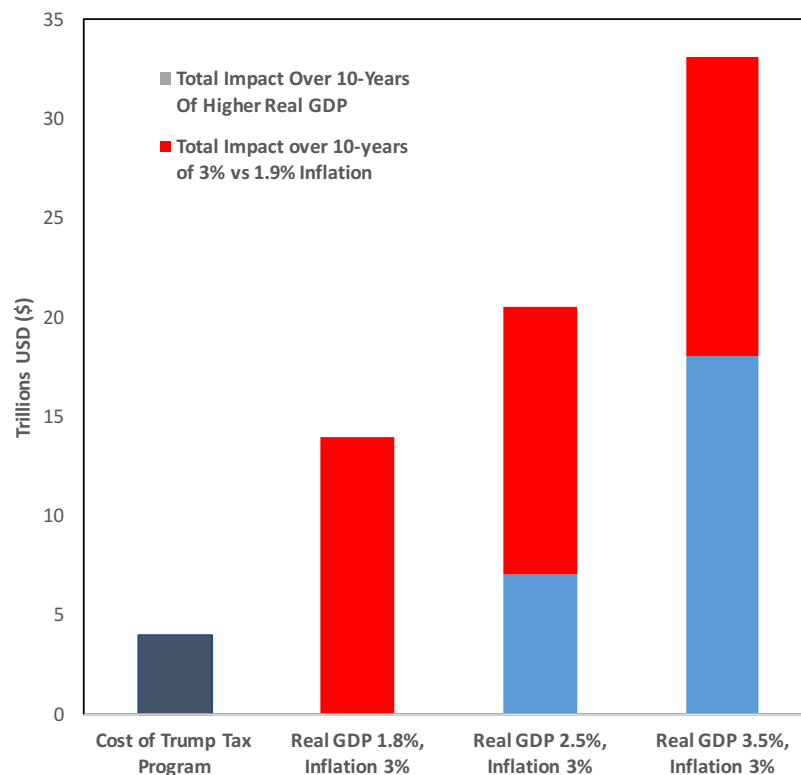
Trade 1: Buy US Equities--Catalyst of Corporate Tax Policy Could Achieve Reagan Era Growth

Tax Policy Of Trumpanomics Could Get Growth Over 3% ^{1,2,3,4}

- Policy could increase the Federal Debt by \$4.3 Trillion over the next 10-years
- Upside is that this could also increase real GDP by 68 bp per year and reduce the debt growth by 40%
 - Adding two of the House plan could achieve another 46 bp of growth with little increase in cost
- Taken together this could bring real GDP growth to almost 3% per year vs projections of 1.8%

Trump Tax Plan 9/2016	Cost In Federal Tax Rev Total Next 10 Years (\$bil)		Increase in Annual Real GDP
	Static	Dynamic After Impact on GDP	
Individual Tax Cut	-1400	-1200	0.09%
Corporate Tax Cut	-2100	-1000	0.40%
Partial expensing of capital investments	-300	-200	0.06%
Other	-500	-200	0.13%
Total	-4300	-2600	0.68%
Potential Provisions From House Republican Plan	Cost In Federal Tax Rev Total Next 10 Years (\$bil)		Increase in Annual Real GDP
	Static	Dynamic After Impact on GDP	
Allow 100% expensing of capital investments vs Trump Plan	-1900	-700	0.50%
Border Adjust Business Tax	1000	900	-0.04%
Total With Provisions	-5200	-2400	1.14%

Increase In Debt Seems Small Versus The Potential Upside ^{1,2,3,4}



1. Cole, "Details and Analysis of the Donald Trump Tax Reform Plan, September 2016", Tax Foundation, Sept. 2016
 2. Pomerleau, "Details and Analysis of the 2016 House Republican Tax Reform Plan", Tax Foundation, July 2016
 3. CBO Projections 2016-2027
 4. Authors calculation

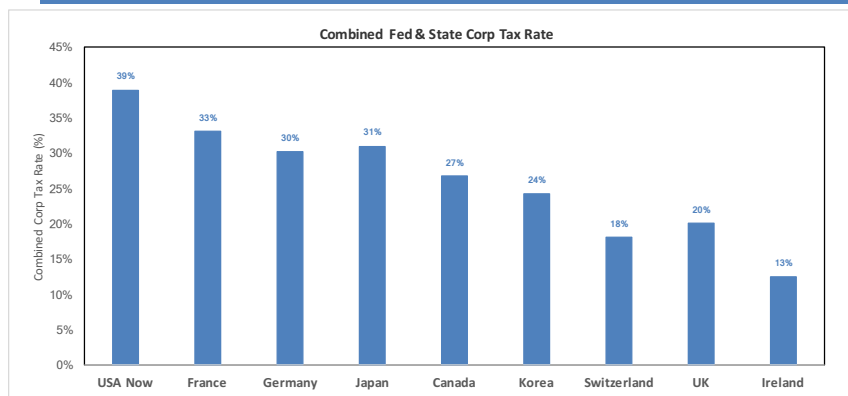
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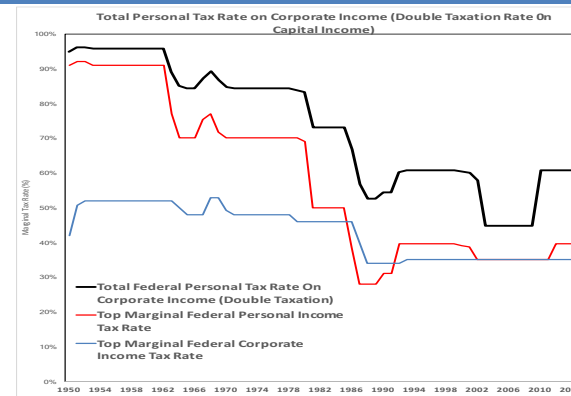
Step 4: Find Asymmetric Trade

Trade 1: Buy US Equities--Current Tax Policy Is A Significant Headwind For Investing In The US

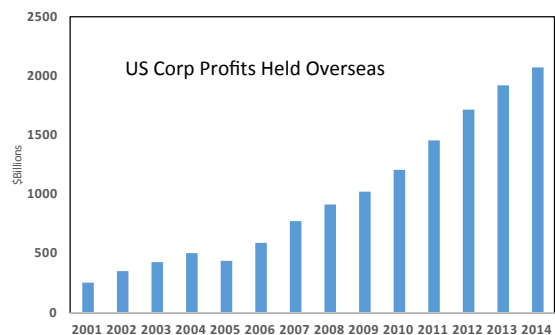
US Corporate Taxes Are The Highest in The Developed World ¹



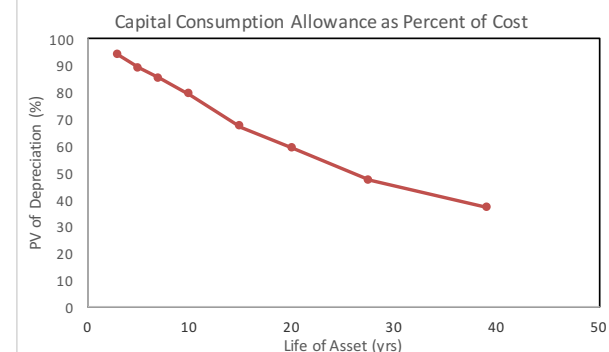
The Cost of Capital Is High Given Double Taxation ³



And Encouraged US Companies to Kept Their Profits Overseas ²



Depreciation Tax Policy Reduces the Incentive To Invest ⁴



1. KPMG
2. Credit Swiss Equity Research, "Parking A-lot Overseas", March 2015
3. IRS
4. Entin, Fellow, "the Tax Treatment of Capital Assets and Its Effect on Growth", Tax Foundation Background Paper, April 2013

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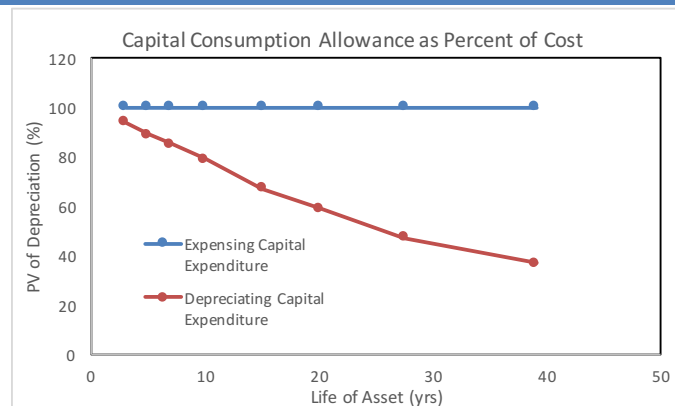
Step 4: Find Asymmetric Trade

Trade 1: Buy US Equities--Corporate Tax Reform Could Remove Headwind And Spur Investment

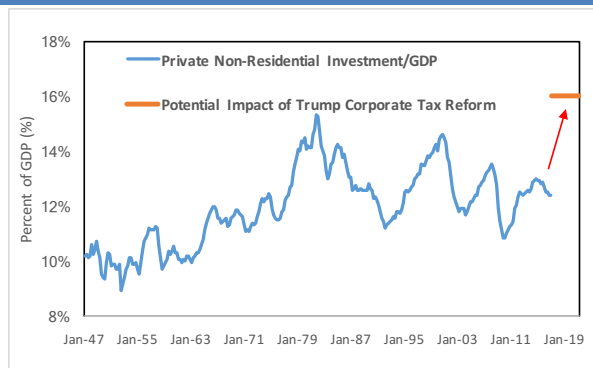
Trumpanomics Substantially Reduces Cost of Capital Investment¹

Category	Current law	Revised Trump plan	Change (percentage points)
Business investment	22.0	6.7	-15.3
Corporate	24.0	9.5	-14.5
Equipment	19.9	10.0	-9.9
Structures	27.9	10.0	-17.9
Intellectual property products	-0.1	5.1	5.2
Inventories	38.4	10.0	-28.4
Pass-through	18.9	2.6	-16.3
Equipment	15.5	3.2	-12.3
Structures	22.3	3.2	-19.1
Intellectual property products	-3.4	-2.5	0.9
Inventories	31.6	3.2	-28.4
Addendum			
Corporate (equity financed)	30.8	9.3	-21.5
Corporate (debt financed)	-7.4	10.1	17.5
Variation (s.d.) across assets	12.2	1.8	
Variation (s.d.) across industries	6.1	0.9	

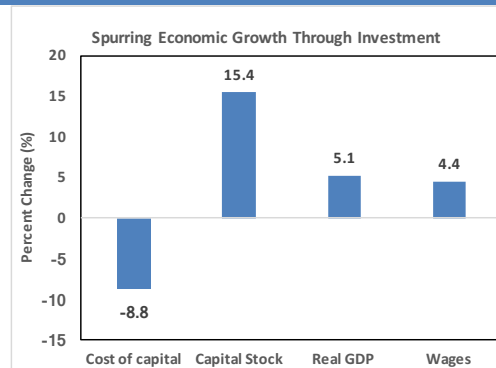
100% Expensing Could Reduce The Headwinds To Invest³



This Could Spur Investment Even Higher Than Reagan²



100% Expensing Could Provide Substantial Upside to Growth⁴



1. KPMG
2. Hufbauer and Lu, "Lessons for US Business Tax Reform from International Tax Rates", Policy Brief, Peterson Institute for International Economics, PB17.2, January 2017
3. Entin, Fellow, "the Tax Treatment of Capital Assets and Its Effect on Growth", Tax Foundation Background Paper, April 2013
4. McBride, "the Economic and Budgetary Effects of Full Expensing of Investment", Tax Foundation Blog, April 2014

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State of the Markets: Strategies for Trumpanomics--Tax Reform

Step 4: Find Asymmetric Trade

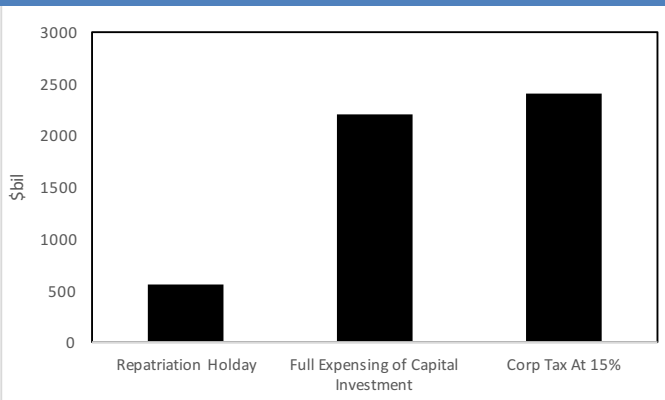
Trade 1: Buy US Equities

If Passed, Trump's Corporate Tax Reform Will Reprice Equities

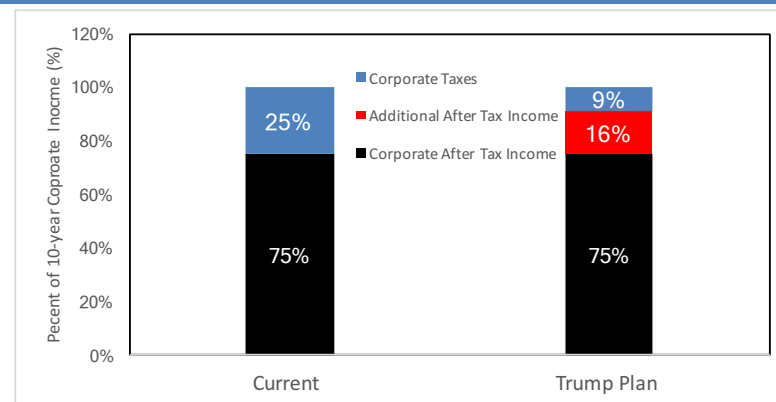
- Tax plan could add as much as \$5 trillion to after tax corporate income over the next 10-years
 - Tax repatriation holiday, \$0.5 trillion
 - Full expensing of capital investment, \$2.1 trillion
 - Tax cut from 35% to 15%, \$2.4 trillion
- Tax cut would add as much as 21% to after tax income
 - Could be more if economy grows faster from program
- Tax cuts could push equities substantially higher
 - Also push credit market tighter, particularly high yield

Risk is that nothing gets done

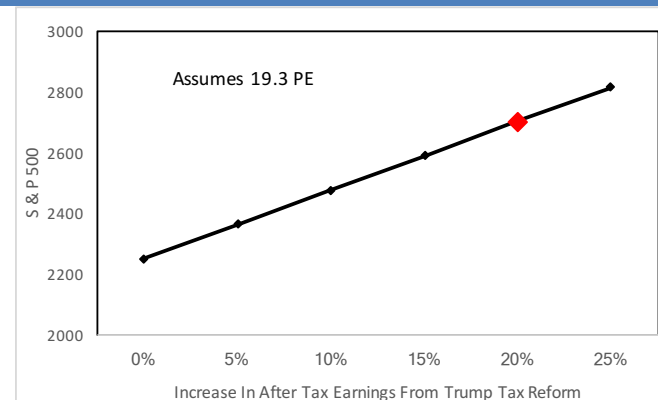
Tax Savings From Trump Corporate Tax Plan Over 10 Years ^{1,2}



Fully Implemented, Trump Tax Plan Adds 20% to After Tax Income ^{1,2}



Potential Impact of Trump Corporate Tax Reform on Equities



1. Jim Nunns, Len Burman, et, "An Analysis of Donald Trump's Revised Tax Plan", Tax Policy Center, October, 2016
2. Entin, Fellow, "the Tax Treatment of Capital Assets and Its Effect on Growth", Tax Foundation Background Paper, April 2013

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