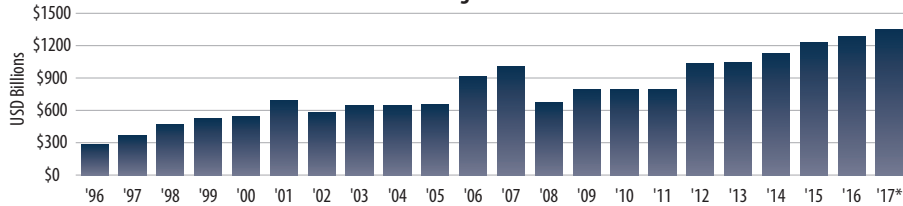


# Investment Grade Viewpoint - Corporate Tax Reform

Monthly Update from the FTA Investment Grade Team

December 2017

## Investment Grade Bond Issuance – Rising to Record Levels Since the 2008 Crisis

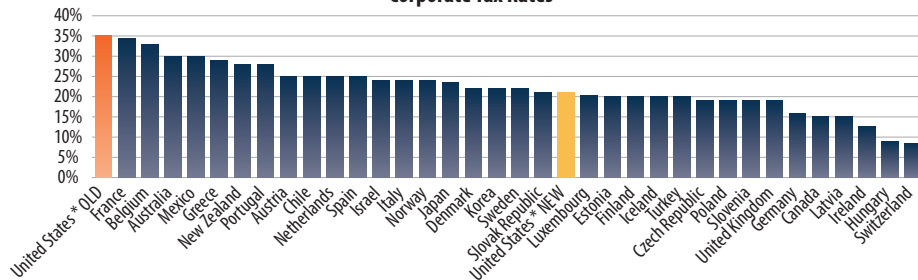


Source: Securities Industry and Financial Markets Association (SIFMA). \*Through 12/22/17.



For Investment Grade (“IG”) companies, we believe most of the corporate tax reform impact will be on bond issuance. High US taxes have been a barrier for US companies with overseas cash balances and they often issued new debt for funding and cash needs instead of paying the repatriation tax. Lower domestic tax rates and reduced taxation on overseas cash repatriation (returning overseas cash to the US), will allow better access to cash, improve free cash flow and lessen the need for bond issuance. These changes support credit fundamentals and bond spreads. Finally, a higher after-tax cost of debt would, other things equal, decrease the incentives for leverage.

## Corporate Tax Rates



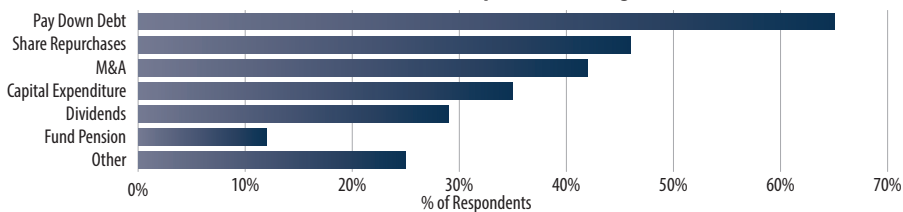
Source: Organisation for Economic Co-operation and Development (OECD)



A drop in the corporate tax rate from 35% to 21% and a lower cash repatriation tax rate at 15.5% are both positives for IG credit markets. We believe this will give companies more resources to lower debt balances, repurchase shares, increase dividends, improve scale through mergers and acquisitions and invest in business activities through capital expenditures.

S&P 500 companies hold an estimated \$920 billion of untaxed cash overseas and there are 21 IG companies with more than \$5 billion each in cash overseas.

## How Would the Proceeds of Repatriated Earnings Be Used?



Source: Business Insider. Based on a Bank of America Merrill Lynch survey of 302 US companies. Respondents chose all that apply.



The new law includes immediate expensing of capital expenditures “CapEx” for 5 years which lowers the tax rate for many companies in periods of rising CapEx.

We believe this new incentive for accelerated capital expenditures will support earnings and revenue growth stemming from increased business investment. After-tax corporate profits generated from this should be higher given the new lower tax rate.

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