

***SOM** Macro Strategies*

State Of the Markets: Implications of Biden's Corporate Tax Plan--Part 1

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State Of the Markets: Implications of Biden's Corporate Tax Plan--Part 1

- Part 1: Implications of Biden's corporate tax policy
- Part 2: What to do about it

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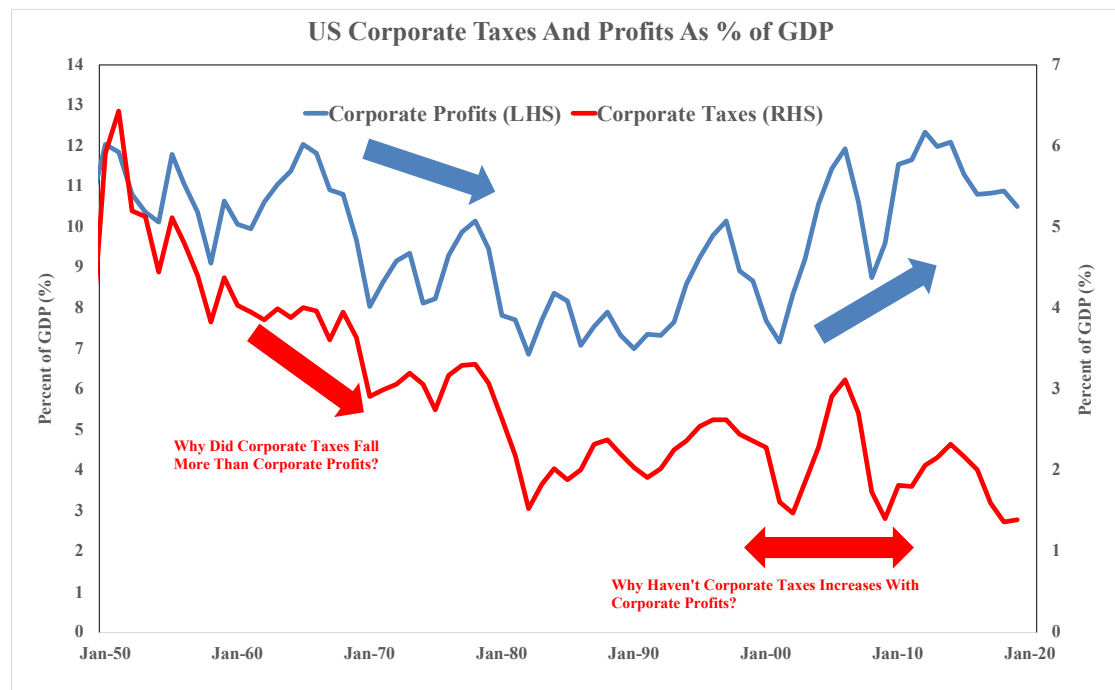
Step 1: Macro Theme

Part Of Biden's Corporate Tax Plan Is To Force Corporations And The Wealthy To Pay Their Fair Share

Biden's Corporate Tax Plan¹

- Increase top corporate tax rate to 28% from 21%
- Establish a minimum tax of 15% on corporate book income
- Raise the tax rate on foreign profits
 - Eliminate the deduction for Foreign Derived Intangible Income (FDII)
 - Place a 21% minimum tax rate on Global Intangibles Low-Taxed Income (GILTI)
- Increase the long-term capital gains and qualified dividends tax rate to that of the personal income rate for incomes over \$1mm

The Goal Is To Push Corporations Tax Revenue Back To The Levels of the 60s²



1. "THE MADE IN AMERICA TAX PLAN", US Department of The Treasury, April 2021
2. BEA data

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Step 2: Fundamental Economic Framework

Corporates Are An Easy Political Target Because They Are Owned By The Wealthy And Foreigners¹

Falling Share of US Equities Are Exposed To Higher Corp Taxes...

And Those That Are The Very Wealthy

Figure 1: Ownership of U.S. Corporate Stock, 1965-2019

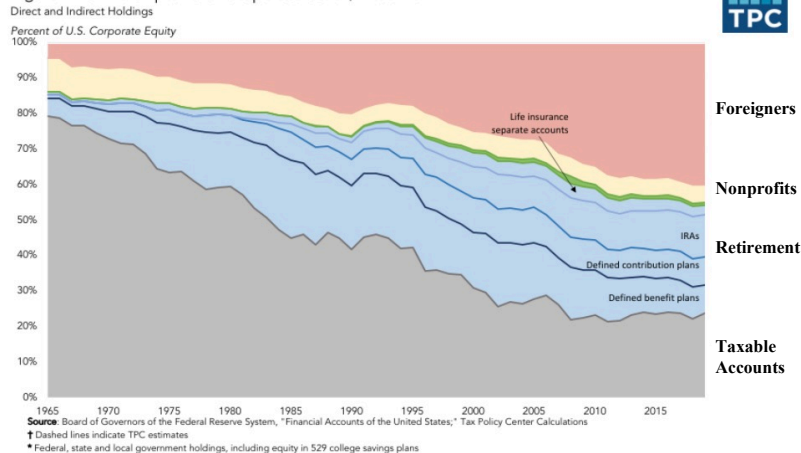
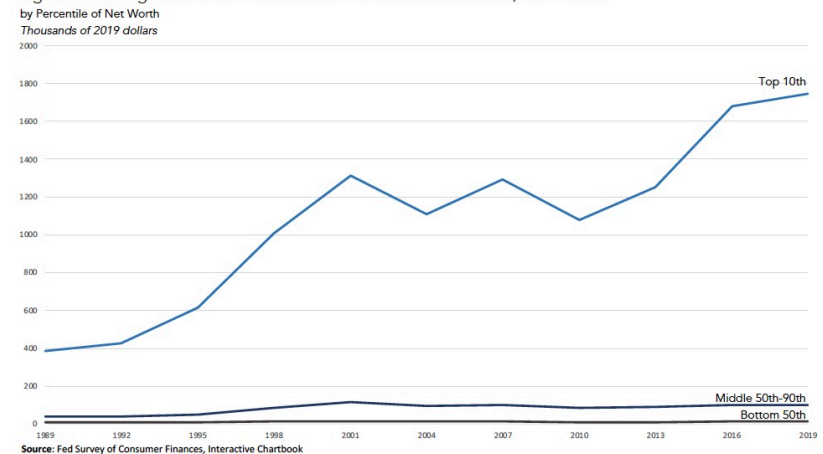


Figure 6: Average Stock held in Retirement & Taxable Accounts, 1989-2019



1. Rosenthal, Burke, "Who's Left to Tax" US Taxation of Corporations And Their Shareholders", Fall 2020, NY University, School Of Law

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Step 2: Fundamental Economic Framework

Taxing The Top 1%ers And Corporations Are A Target Because They Can Fund Biden's Progressive Agenda

Plan Raises \$2 Trillion Of Additional Corporate Tax Revenue¹

	2022	2023	2024	2025	2022-25	2022-2031
Set the Corporate Tax Rate at 28%	46	69	73	79	267	892
Set the Rate on GILTI at 21%; Eliminate the Deduction for Tangible Returns; Assess Country-By-Country; Prevent Inversions	41	61	66	72	240	728
Eliminate Deduction for Foreign Derived Intangible Income	8	13	19	24	64	260
Enact A Minimum Tax on Large Corporations' Book Income	6	9	12	15	41	184
Eliminate Tax Preferences for Fossil Fuels	2	3	3	3	11	33
Total	104	155	173	192	624	2095

Higher Capital Gains Taxes Could Another \$150 Billion A Year²

Distribution of Income And Tax Data As of 2018									
Income Percentile	Tax Units (000)	Average For Tax Unit (\$000)					Total Additional Tax Rev (\$bil)		
		LT Capital Gains /Qualified DD	Total Income	Capital Gains Tax Inc	Maginal Income Tax Inc	Avg Tax Increase	Capital Gains	Maginal Income Tax Inc	Total
Top 1%	1130	984	2,240	177	25	202	149	37	186
Top 0.1%	110	5,662	10,810	1,019	103	1,122	111	15	126

1. "President Biden's \$2.7 Trillion American Jobs Plan: Budgetary and Macroeconomic Effects", Penn-Wharton Budget Model, April 2021
 2. Tax Policy Center, Microsimulation Model

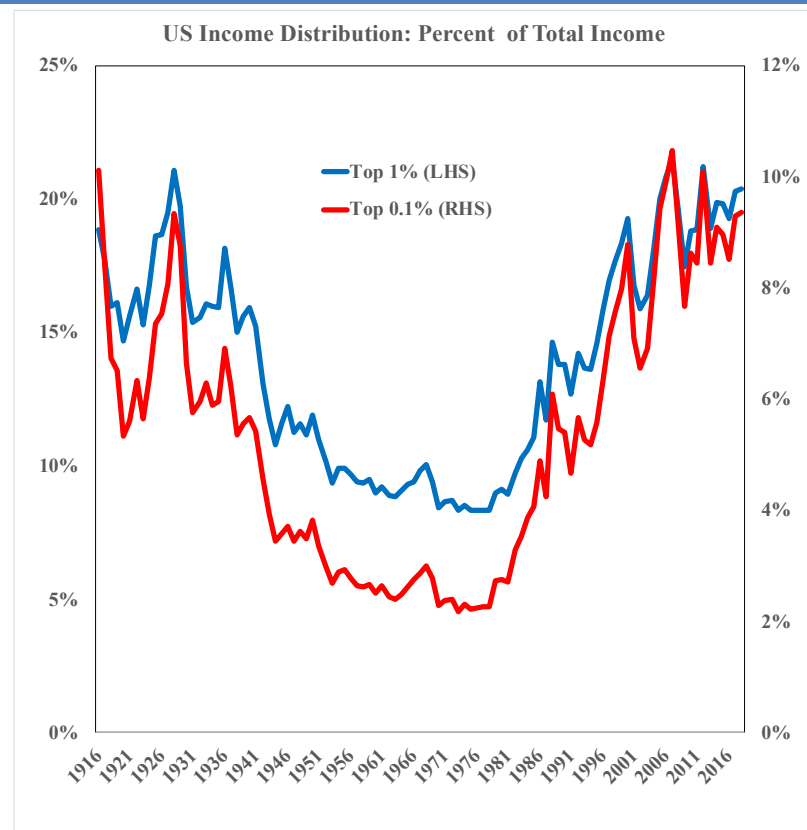
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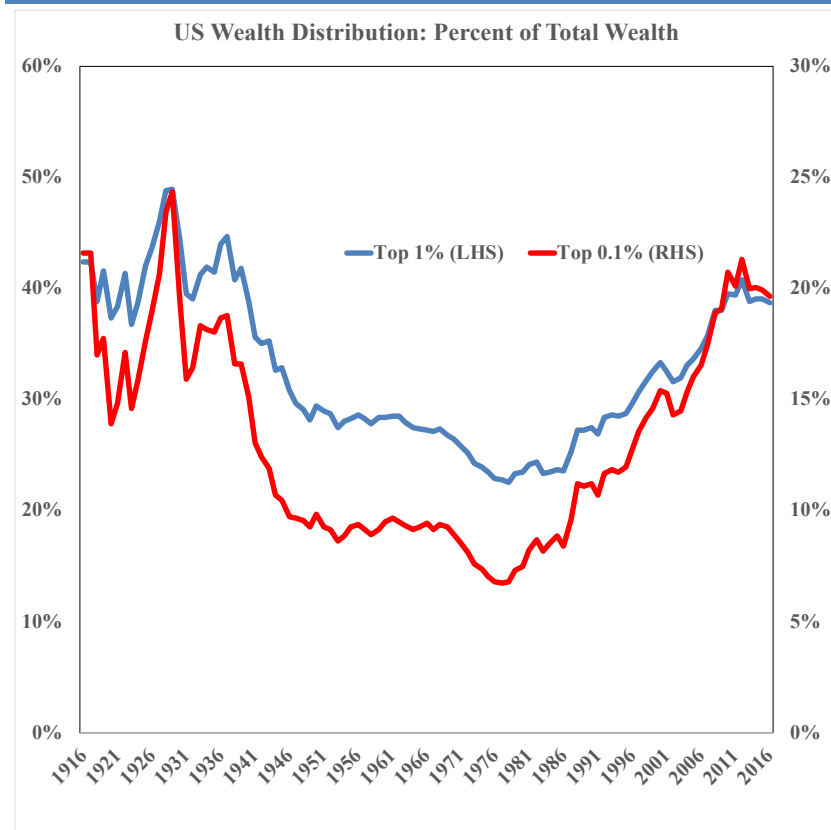
Step 2: Fundamental Economic Framework

One Of Biden's Argument For Higher Corporate Taxes Is That It A Could Reverse Growing Income And Wealth Inequality

Income Inequality is Growing As Income of The 1%ers Is Growing...¹



So Too Is Wealth Inequality²



1. Piketty, Saez, and Zucman, "DISTRIBUTIONAL NATIONAL ACCOUNTS; METHODS AND ESTIMATES FOR THE UNITED STATES" The Quarterly Journal of Economics, May 2018

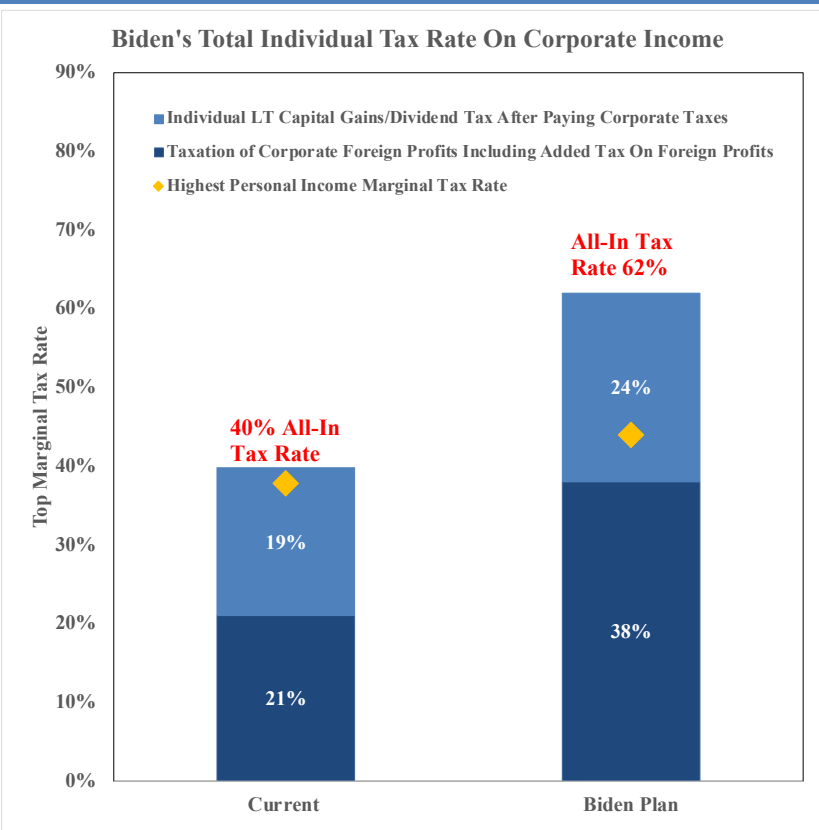
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Step 2: Fundamental Economic Framework

Biden's Arguments For Higher Corporate Taxes Is Not Supported By The Data And Could Derail US Economic Growth

All In Corporate Tax Rate Will Represent About 2/3rds Of Profits¹



Little Justification For Higher Corporate Taxes Other Than For Cash

- In contrast to perception, the income and wealth share of the top 1% is largely unchanged since the 1980s
- Higher corporate tax rates will not return tax revenues to the levels of the 60s
 - Corporate tax revenues have fallen since the 1960s because profits of corporations subject to the corporate tax (C-corps) has fallen
- Biden's corporate tax plan may not generate as much revenue as projected
 - Corporate tax revenue could be lower as the plan could push C-corps business to a pass-through business structures to avoid double taxation
 - Wealthy individuals can put off the realization of capital gains to avoid the higher capital gains tax
 - Higher taxes on foreign profits could push Multinationals (MNE) to sell their Controlled Foreign Corporations (CFC) to foreign owners that face lower domestic corporate tax rates
- And if it does work, Biden's corporate tax plan could push down after-tax equity earnings by as much as 20% and push down future economic growth

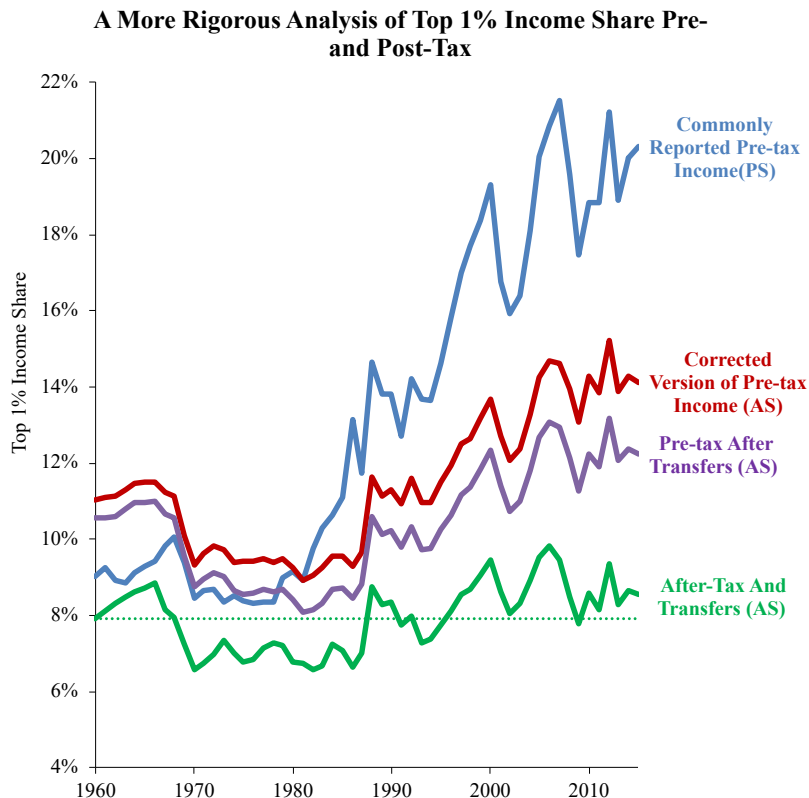
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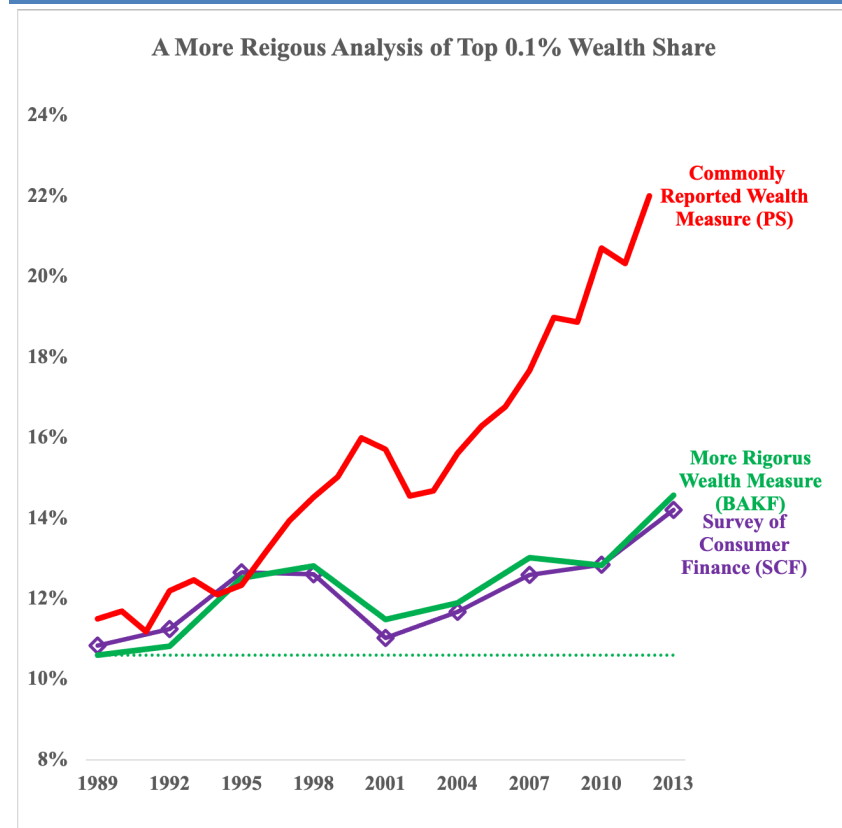
Step 2: Fundamental Economic Framework

A More Rigorous Analysis Shows That Income And Wealth Shares of The 1%ers Are Little Changed Since The 60s

Income Share of the 1%ers Is Little Changed Since 1960^{1,2}



Wealth Share of The Uber Wealthy Is Little changed As Well^{3,4}



1. Piketty, Saez, and Zucman, "DISTRIBUTIONAL NATIONAL ACCOUNTS; METHODS AND ESTIMATES FOR THE UNITED STATES" The Quarterly Journal of Economics, May 2018

2. Auten, Splinter, "Income Inequality in the United States: Using Tax Data to measuring Long-term Trends", Working paper, December 2019

3. Saez, Zucman, "Wealth Inequality in the United States since 1913: Evidence from capitalized income tax data." Quarterly Journal of Economics 2016

4. Bricker, Henriques, Krimmel, & Sabelhaus, "Measuring income and wealth at the top using administrative and survey data", Brooking Papers on Economic Activity, March 2016

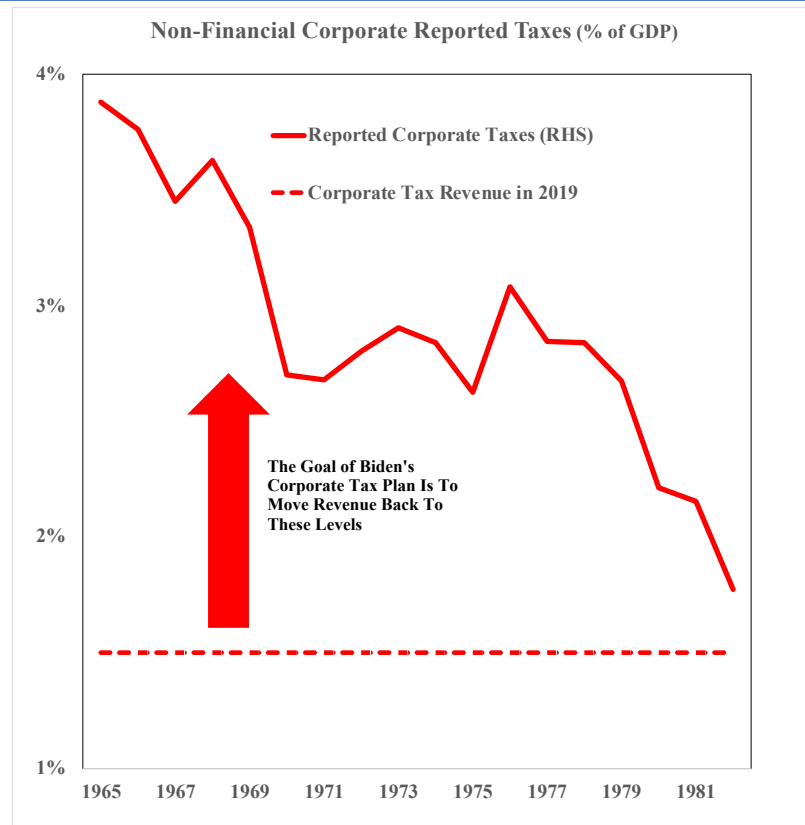
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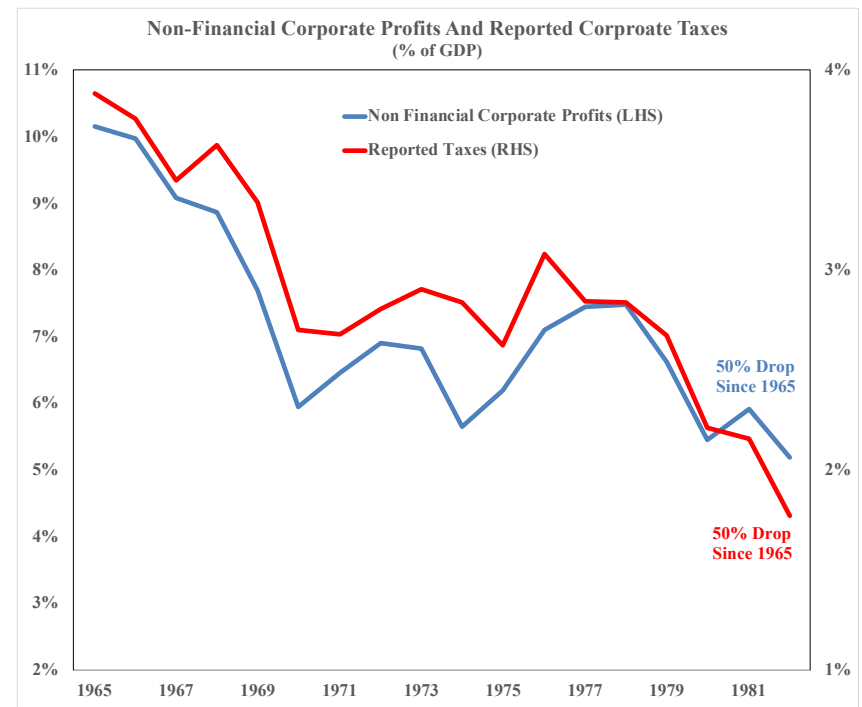
Step 2: Fundamental Economic Framework

Corporate Tax Revenue Was Higher In 60s Because Corporate Profits Subject To The Tax Was Higher¹

One Goal Of Biden's Is To Return Corporate Tax Revenue To The 60s



However, Tax Revenue Fell Because Corporate Profits Fell



1. Auerbach, Poterba, "Why have corporate tax revenues declined?", NBER Working Paper, January 1987

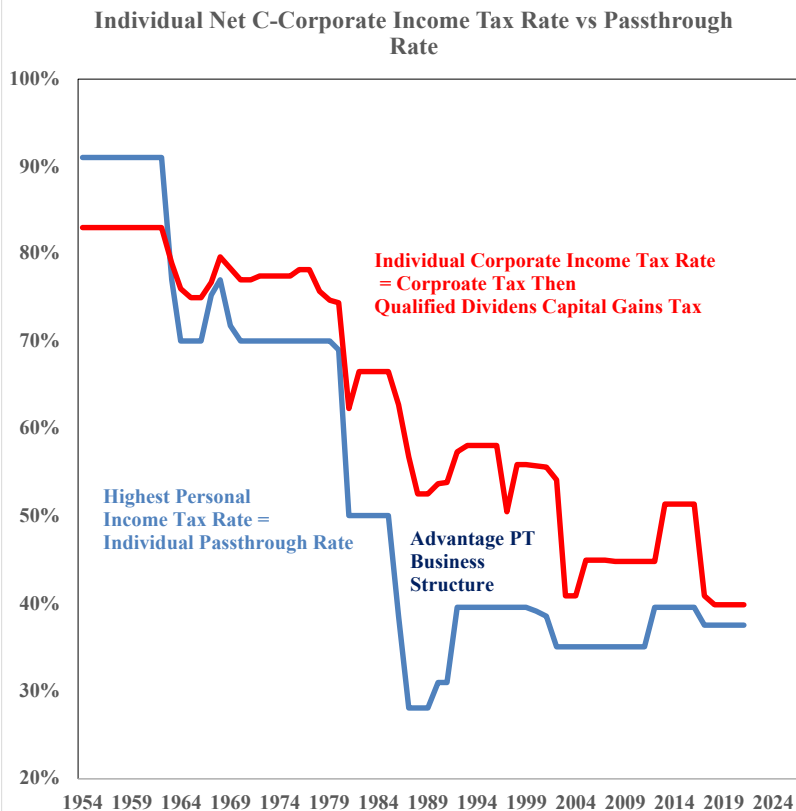
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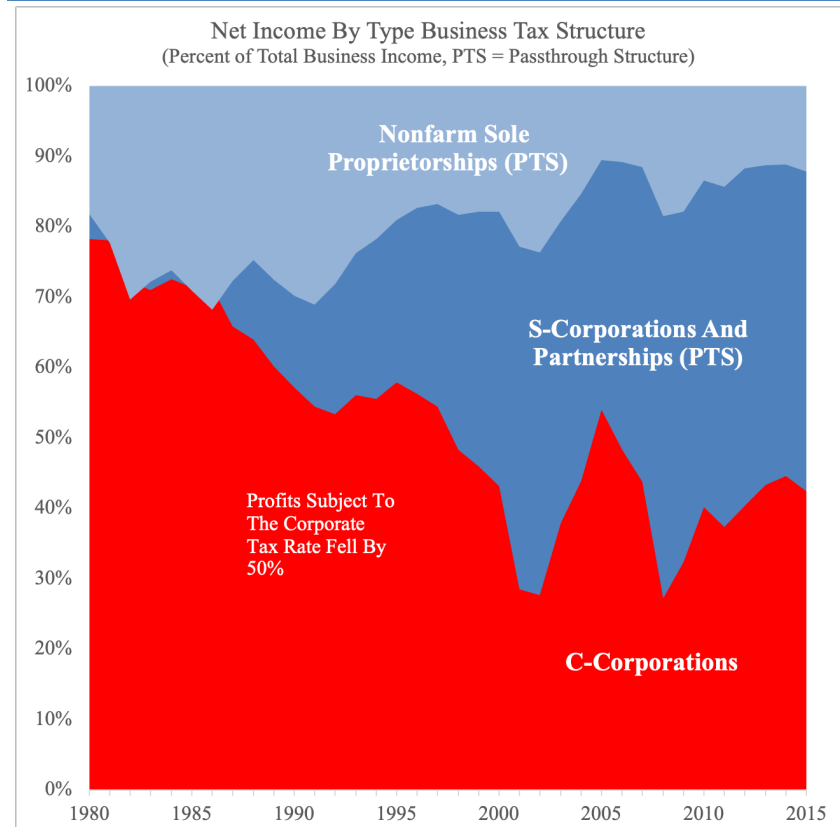
Step 2: Fundamental Economic Framework

Tax Revenue In Also Lower Today Because More Corporates Have Moved To PT Structures That Do Pay Corporate Taxes

Personal Tax Cuts In the 80s Incentivized Business To Become PTs¹



Tax Revenue Fell Because Profits Exposed To Corporate Taxes Fell²



1. Author's calculation
2. IRS

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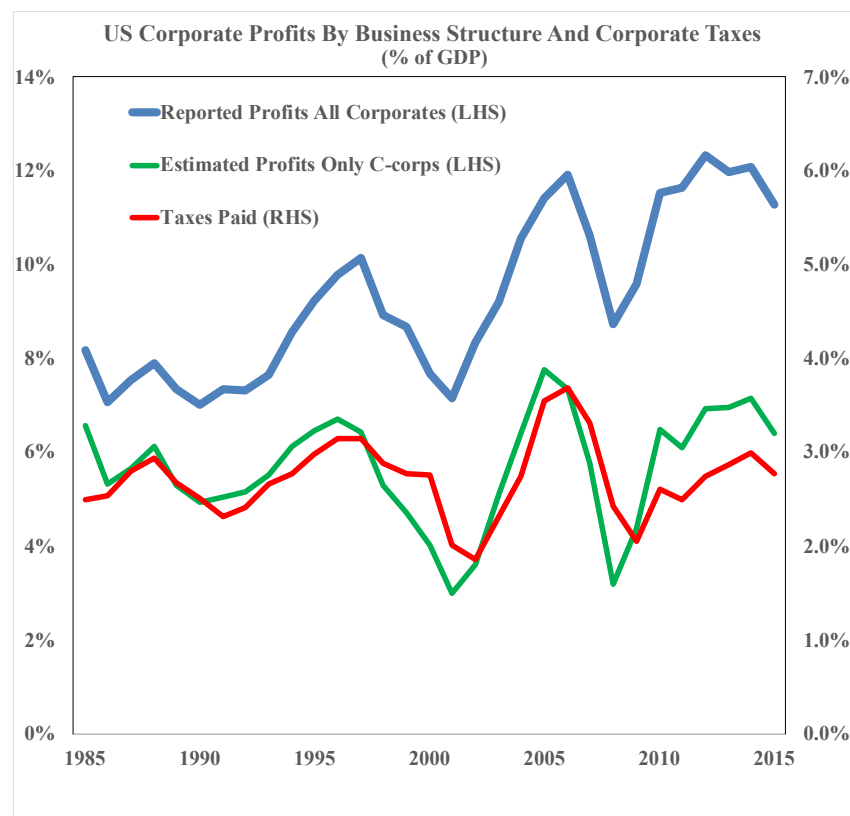
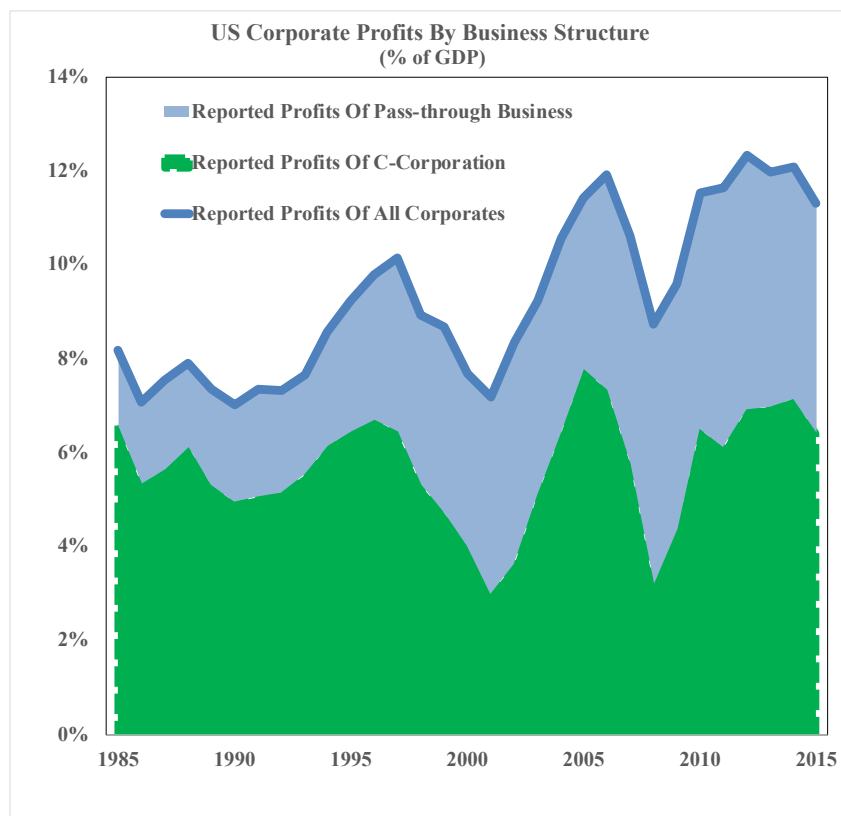
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Step 2: Fundamental Economic Framework

Recently, Tax Revenue Has Been Flat Even With Rising Corporate Profits Because C-Corps Profits Have Been Flat

Corporate Profit Growth Has Been Driven By Growth of PT Profits¹

Corporate Taxes Are Flat Because C-corps Profits Have Been Flat^{1,2}



1. IRS
2. BEA

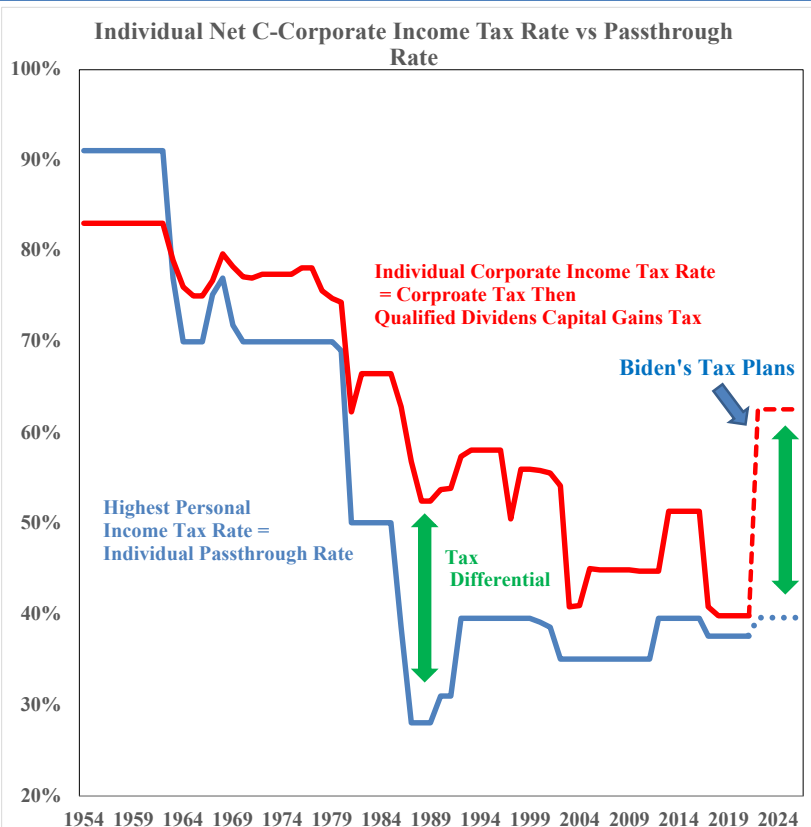
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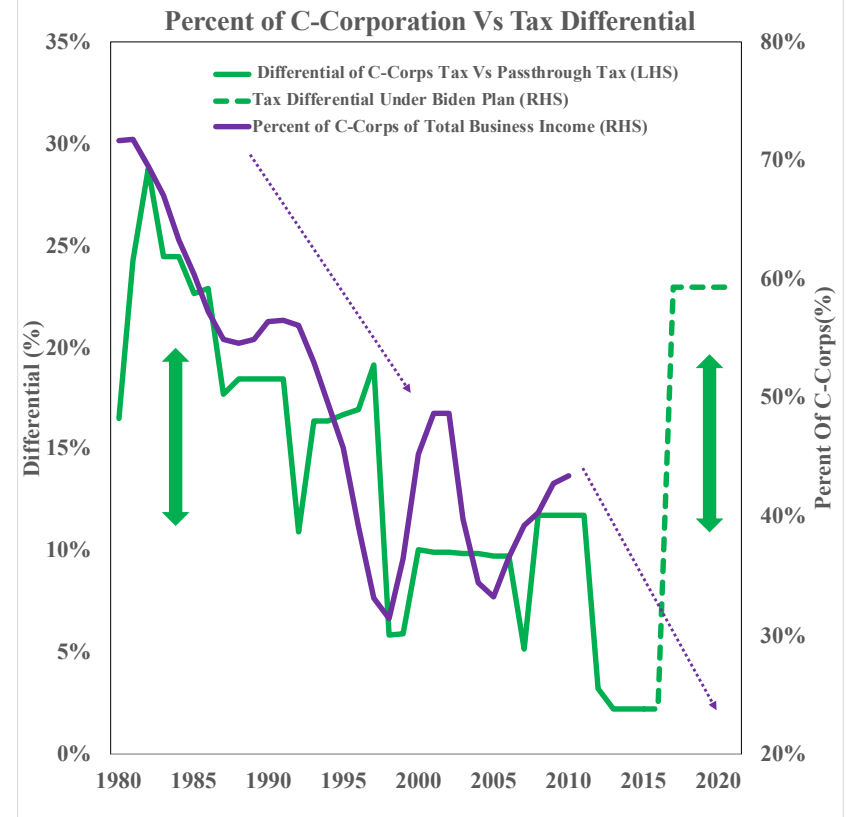
Step 2: Fundamental Economic Framework

Biden's Tax Plan Could Yield Less Corporate Tax Revenue As It Incentivizes C-Corps To Become PTs

Higher Corporate Tax Rates Will Push Business To Become PTs1



That Is What Happened In The 1980-1990s^{1,2}



1. Author's calculation
2. IRS

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Step 2: Fundamental Economic Framework

Raising Capital Gains Taxes Could Raise Little If Any New Revenue As The 1%ers Delay Realizations

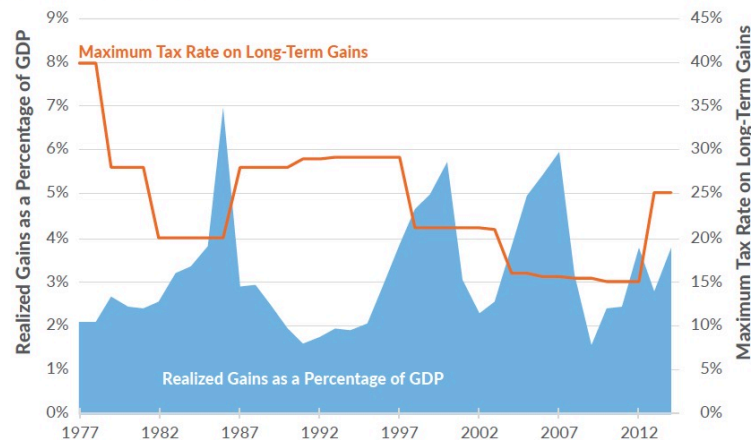
Wealthy Households Historically Can Control Realizations of Gain¹

Based On This Behavior, Capital Gains Tax Revenue Could Be Small ^{2,3,4 5}

FIGURE 2.

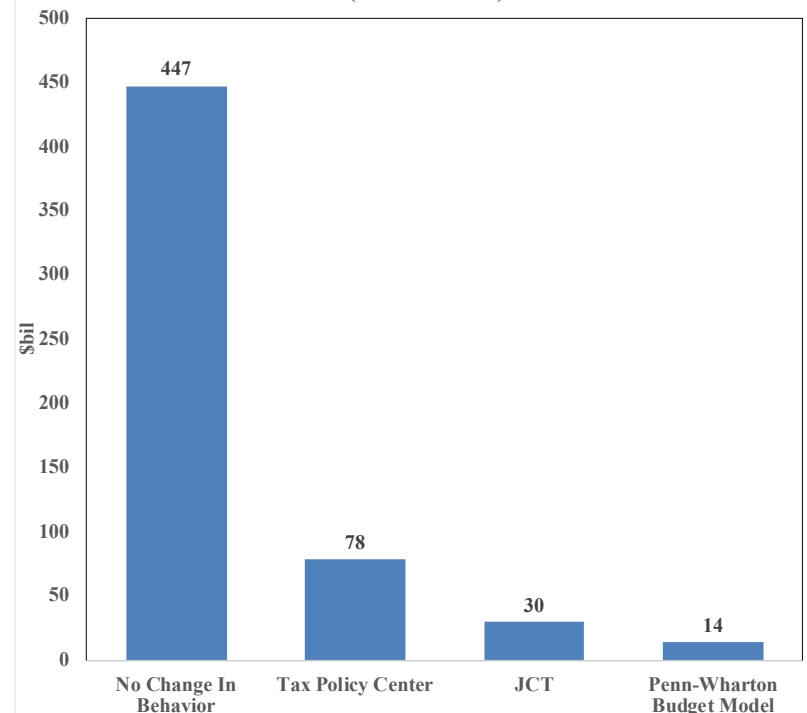
Capital Gains Realization Rise When the Maximum Tax Rate on Long-Term Gains Falls

Realizations and Top Rate, 1977-2014



Source: U.S. Department of the Treasury Office of Tax Analysis, "Taxes Paid on Long-Term Capital Gains, 1977-2014," <https://home.treasury.gov/policy-issues/tax-policy/office-of-tax-analysis>.

Potential Revenue Gains From Biden's Increase In Long-Term Capital Gains/Qualified Interest Tax Rate (Total 2022-24)



1. York, "An Overview of Capital Gains Taxes", Tax Foundation, April 2019
2. Author's calculations
3. Tax policy center
4. "Capital Gains Tax Options: Behavioral Responses and Revenues", Congressional Research Service, January 2019
5. "Revenue Effects of President Biden's Capital Gains Tax Increase", Penn-Wharton Budget Model, April 2021

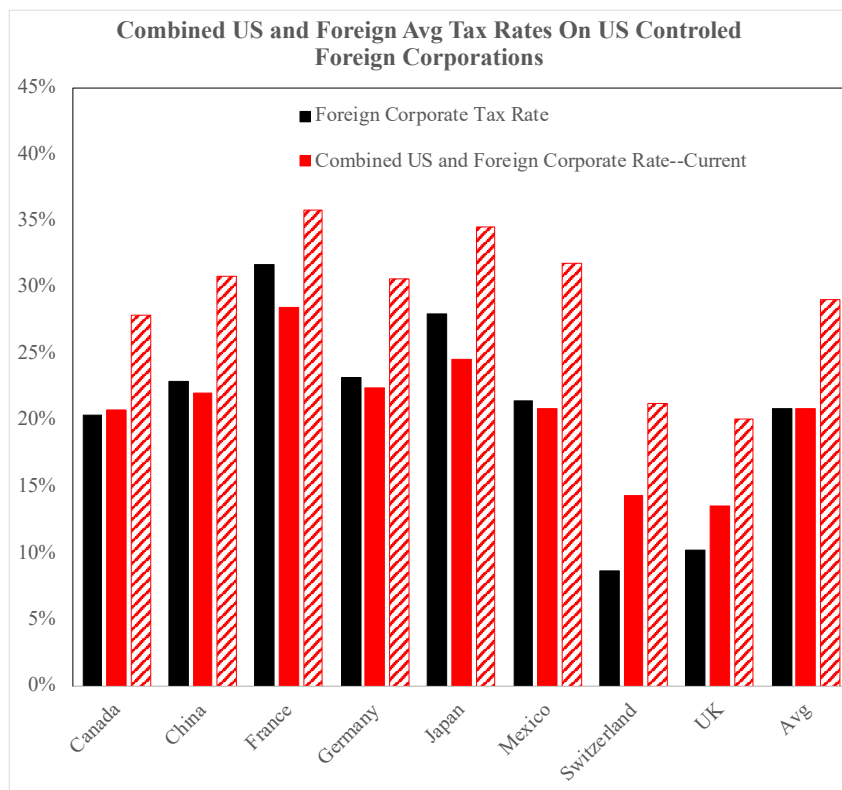
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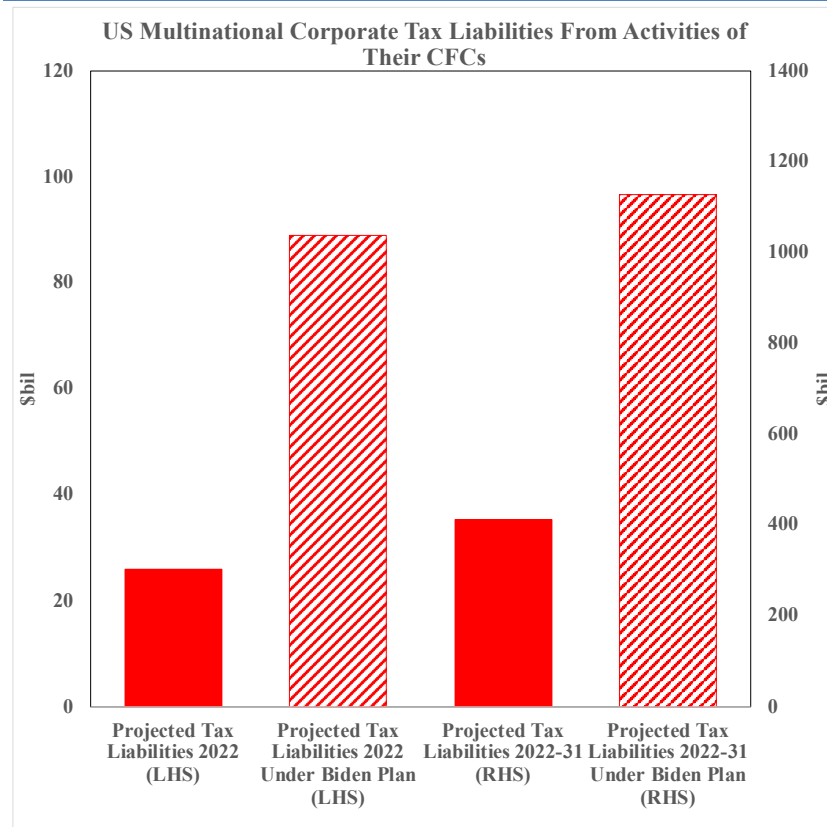
Step 2: Fundamental Economic Framework

Biden's Taxing Of Foreign Income Could Push US MNE To Sell Their CFCs Actually Reducing US Taxes¹

Tax Hikes For US Foreign Profits Makes The US The Outliers



MNE Could Be Forced To Sell Their CFC To Local Firms



1. Kallen, "Effects of Proposed International Tax Changes On US Multinationals", Tax Foundation, April 2021

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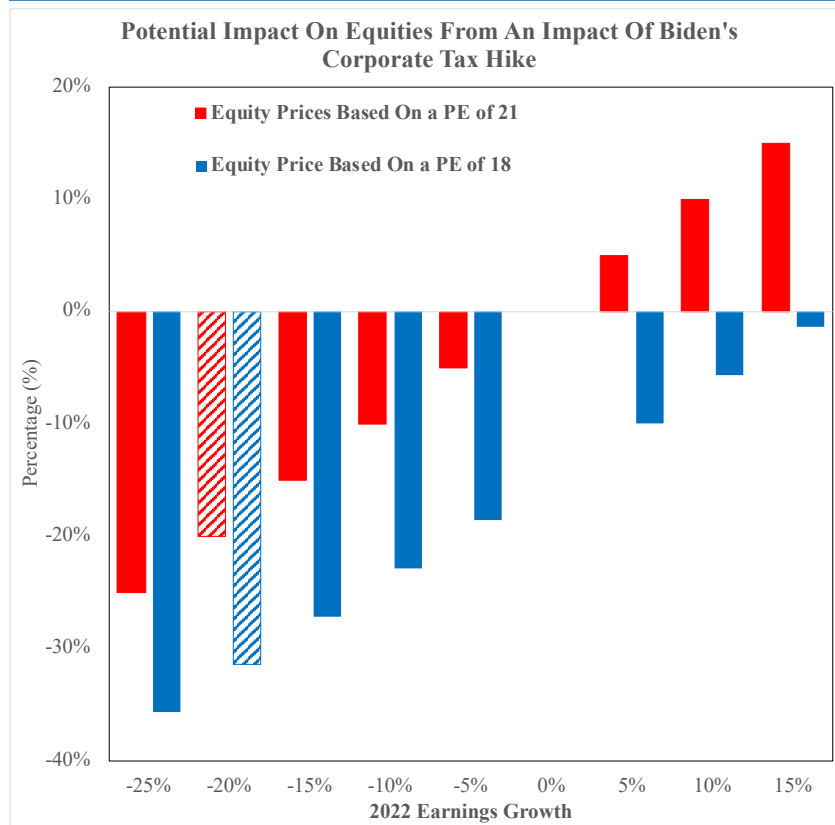
Step 3: Identify Potential Catalysts

If It Works, Biden's Tax Plan Could Hammer US Equities By Reducing After-Tax Profits And Lowering Economic Growth

Biden's Corporate Tax Plan Could Be A Headwind To US Growth^{1,2,3,4}

Source	By 2030	
	GDP (\$bil)	Capital Stock
Hoover Institute	-2700	-15%
Tax Policy Center	-720	
Tax Foundation	-385	-4%
Penn-Wharton Budget Model	-300	-3%

US Equity Prices Could Fall Reflecting Lower After-Tax Profits⁵



1. Fitzgerald, Hasset, Kallen, & Mulligan, "An Analysis of Vice President Biden's Economic Agenda: The Long Run Impacts of Its Regulation, Taxes And Spending" Hoover Institute Study, 2019
2. TPC
3. Tax Foundation
4. "President Biden's \$2.7 Trillion American Jobs Plan: Budgetary and Macroeconomic Effects", Penn-Wharton Budget Model, April 2021
5. Author's calculations

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