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S&P Global: No "One-Size-Fits-All" Solution For Corporate Tax Reform, But A Border Adjustment Tax May Fix Many Inefficiencies

NEW YORK, April 18, 2017 /PRNewswire/ -- U.S. corporate tax reform will invariably create winners and losers, but a border adjustment tax is a logical amendment to the complex tax code, according to a collection of reports published by S&P Global's economists and analysts today. The articles analyze the advantages and drawbacks of adopting a "destination-based cash-flow tax" regime (DBCFT), more commonly known as the border adjustment tax. S&P Global's reports expand on the DBCFT idea by evaluating the broader economic implications and sectors impacted under the proposed system.

S&P Global's reports expand on the DBCFT idea by evaluating the broader economic implications and sectors affected by the proposed system. While the DBCFT will likely be more beneficial to some U.S. corporate sectors than others, S&P Global economists suggest that border adjustment taxes can help simplify the complicated corporate tax rules and minimize lingering systemic distortions, including tax inversions, financing imbalances in the capital markets, and underinvestment.

"Most observers agree that tax reform is necessary and beneficial. Our goal was to explore the origins and consequences of some proposed changes that may make the tax system more efficient. We took a critical look at both sides of the equation and produced a thought-provoking collection of articles that's anchored on sound academic principles and intellectually rigorous research," said **John Kingston**, **Director of Global Market Insights** and the lead author of the research series.

S&P Global drew from the diverse perspectives of economists and analysts across the company. Some of their key findings are:

- At 35%, the U.S. corporate income tax rate is higher than in most other countries. One current corporate tax reform blueprint plans to reduce the rate to 20%, which is more in line with the rates that prevail in the rest of the world. "Simply reducing the income tax rate would fix some--but not all--the problems associated with the current tax system," wrote **John Kingston** and **S&P Global Ratings economist Joaquin Cottani** in their report. These lingering inefficiencies prompt the need to look at the DBCFT more comprehensively.
- The intellectual foundation of the DBCFT rests heavily on an economic model that would see the value of the dollar adjust higher against other currencies, softening—if not eliminating—the impact of subjecting imports to border adjustment. Cottani discusses this aspect of the proposal in an intriguing piece.
- A substantive corporate tax overhaul could be a boon to certain sectors such as financial services and banking. **Nathan Stovall** of **S&P Global Market Intelligence** division noted in his analysis that "while details remain unclear, corporate tax reform could provide a considerable shot in the arm to the U.S. banking sector." He added that "bank earnings would receive a substantial lift" if reform was enacted this year. "It's expected that the reduction in corporate income tax rates would allow the banking industry to produce returns on average equity in excess of 10%," Stovall said.
- For other sectors, the passage of a border adjustment tax could be problematic. In the technology sector, border adjustment would mean the loss of tax deductibility on imports but no tax on exports, said **S&P Global Ratings' Andrew Chang**. Under this scenario, companies that manufacture products overseas such **Apple**, **Cisco Systems**, and **Dell** could take a negative hit, which could in turn be passed on to their consumers.
- The issue of cash repatriations also loom as the largest cash holdings overseas are concentrated in the tech sector. "Roughly 41 percent of the total cash overseas is in the hands of the largest tech companies,"

said Chang.

The full collection of reports can be read at S&P Global's website at https://www.spglobal.com/our-insights/Navigating-Corporate-Tax-Reform.html.

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Media Contacts

S&P Global Media Relations Office
(212) 438-6667
media_relations@spglobal.com

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