IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

For the first time in many years there will likely be some major changes to the U.S. tax code. The final details of the new tax rules are still being worked out as the Senate and the House have passed different versions of their bills. Investors are excited about the potential impact to domestic economic activity. Corporate tax rates in the U.S. are among the highest levels compared with the world's 20 largest economies and a reduction in that rate should make domestic corporations more competitive.

Corporate Tax Rates

Corporate tax rates in the U.S. are significantly higher than most other major G20 countries. Tax experts disagree over how much a reduction in corporate tax rates would help the U.S. economy. However, other countries have aggressively lowered their corporate tax rates in recent years with positive outcomes.

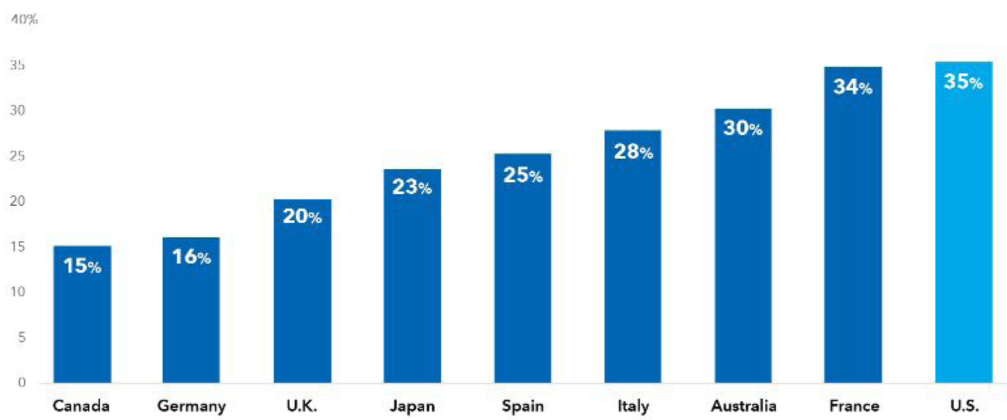
Many of the United States' chief economic rivals, such as Canada, Germany, the U.K., Japan, and China have reduced their top statutory corporate tax rates since the turn of the century. Canada once had among the highest business tax burdens in the world, but it has repeatedly cut corporate taxes to become one of the most competitive, with a 15% corporate tax rate. The result has been a faster growing economy and improved investment that offsets most of the lost tax revenue.

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. The LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

By contrast, the top U.S. corporate tax rate is currently 35%, a level that has not changed since 1993. Democrats and Republicans attempted to lower corporate taxes during the past Administration to help boost economic growth, but the two parties could not agree on how to implement the tax cuts and how to make up for the lost federal tax revenue.

National Corporate Income Tax Rates in 2016



Source: Organization for Economic Co-operation and Development

The current Administration has indicated that it plans to roll out major tax reform that would likely include reducing the corporate rate to 20% from the 35% marginal rate. Some companies face rates closer to 40%, inclusive of state taxes. The proposed tax plan encountered opposition from Democrats and even a few Republicans who worry about the potential negative impact such a large tax cut would have on the budget deficit. Critics of corporate tax cuts argue that most U.S. companies rarely pay the top rate. The tax code has many deductions and loopholes that allow American companies to significantly reduce their actual taxes paid. Looking at the "effective" corporate rates, (see chart below) a typical company's tax burden has been considerably lower than the 35%.

However, even accounting for adjustments, the effective rate paid by U.S. corporations was 18.6%, a level that is still uncompetitive relative to other major countries. In fact, the effective U.S. corporate rate is the fourth highest among the world's 20 largest economies.

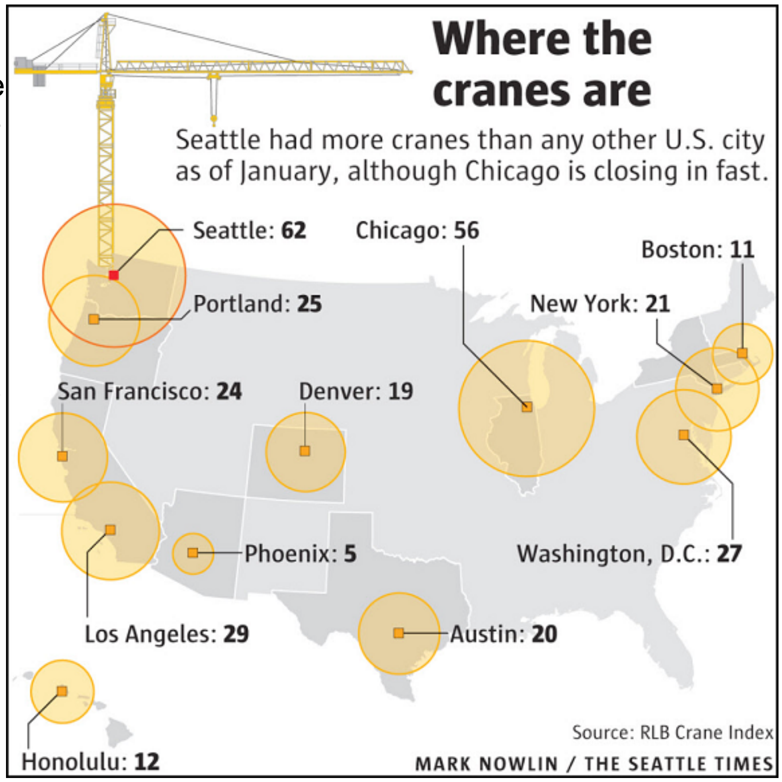
Effective Corporate Tax Rate[6]

Argentina	22.6
Japan	21.7
United Kingdom	18.7
United States	**18.6**
Brazil	17.0
Germany	15.5
India	13.6
Mexico	11.9
Indonesia	11.8
France	11.2
Australia	10.4
China	10.0
South Africa	9.0
Canada	8.5
Saudi Arabia	8.4
Turkey	5.1
Russia	4.4
South Korea	4.1
Italy	-23.5

Although it remains to be seen what impact a lower tax rate would have on the tax revenue actually collected, companies would have a higher incentive to remain in the U.S. or relocate businesses here, leading to more investment and potentially more jobs. A few studies have suggested that high taxes have contributed to a decline in business startups and spurred business owners to legally structure their U.S.-based firms so corporate rates do not apply. These shifts in where businesses set up or how they organize themselves are costly to the U.S. Treasury. The percentage of business income subject to the corporate rate has dropped to 62% in 2011 from 87% in 1981.

Commercial Construction Activity

An excellent barometer of current regional Commercial Construction activity is the number of tower cranes deployed in a major metropolitan area. Currently, Seattle has the largest number of cranes, as the local construction boom shows little sign of slowing anytime soon. At the end of 2016, Seattle had 62 cranes dotting its skyline, according to a firm that tracks cranes across the world. That represents a meaningful increase from the 58 cranes in the summer of last year.
In prior readings, Seattle had an 18-crane lead over Los Angeles, which has been experiencing the second largest number of crane activity. However, Chicago has experienced a surge in construction activity and currently the Midwest city sits in second place, with 56 cranes, just six below the number in Seattle. Although Los Angeles experienced a sharp drop in the number of cranes, the city is in third place.



Conclusion

The improvement in the U.S. economy has been noteworthy. The recent strength suggests that the Federal Reserve Bank will continue to look at raising interest rates in mid-December as well as possible increases next year. Given the relatively healthy state of the domestic economy, the pace of Fed interest rate increases will certainly have an impact on the financial markets. These unknowns could create volatility in 2018, but the underlying foundation of economic health remains strong.

S&P 500 Index

3 Month	7.43%
Year-to-Date	20.49%
1 Year	23.29%
3 Year	11.15%
5 Year	15.71%

MSCI EAFE Net Index

3 Month	4.72%
Year-to-Date	23.06%
1 Year	27.16%
3 Year	6.07%
5 Year	8.23%

Barclays Aggregate Bond Index

3 Month	-0.37%
Year-to-Date	3.07%
1 Year	0.84%
3 Year	2.15%
5 Year	1.98%

As of 11.30.2017

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