

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The possibility of a reform to the U.S. tax code has investors 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. Another interesting development is a population migration in North America, with people moving out of the mid-west and northeast regions. The shift has resulted in an economic boost to southern and western areas of the U.S.

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, but other countries have aggressively lowered their corporate tax rates in recent years.

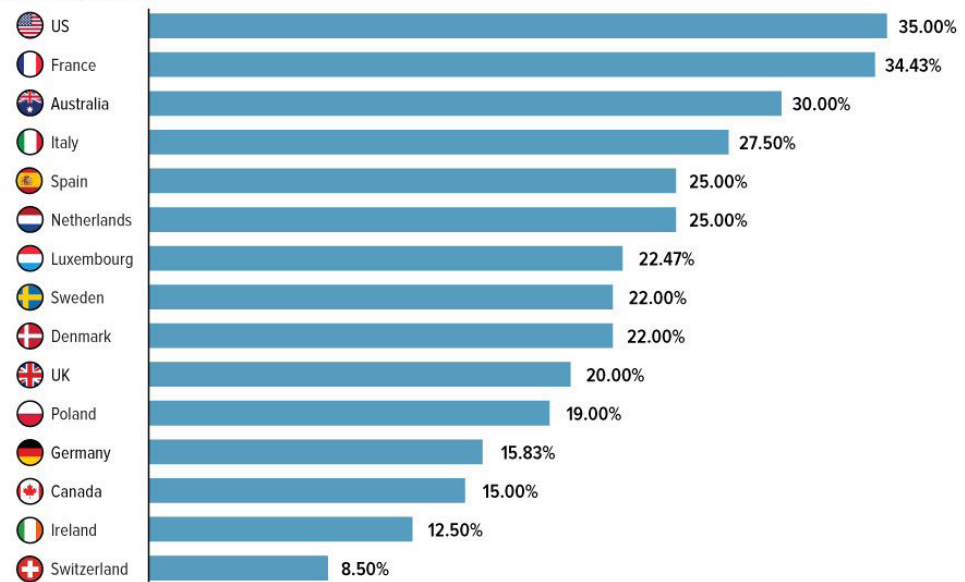
Many of the United States' chief economic rivals, such as Japan, Canada, Germany, the U.K. and China, have reduced their top statutory corporate tax rates since the turn of the century. Canada once had among the highest business tax burdens in the world, but it has repeatedly cut corporate taxes to become 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 Obama 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.

Corporate Tax Rates in Select OECD Countries
As of August 2016



Source: OECD, U.S. Global Investors

The Trump administration has indicated that it plans to roll out major tax reform that would likely include reducing the corporate rate to 15% from the 35% marginal rate. In some places, companies face rates closer to 40%, inclusive of state taxes. The Trump plan proposal is already encountering opposition from Democrats and even many 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 is 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.

Although it remains to be seen what impact a lower tax rate would have on tax revenue 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

Effective Corporate Tax Rate ⁵	
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

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.

Population Migration

The number of people in the U.S. moving to the south eastern region of the country, affectionately referred to as the Sun Belt, has begun to accelerate in the past few years. Almost 600,000 Americans moved from the Midwest and Northeast to the Sun Belt states last year, the most since 2005. Migration is boosting growth along Southeast and Western coasts as well as Nevada and Arizona, reflecting in part a healthier national economy that has made it easier to re-locate. Retirement centers Myrtle Beach, South Carolina, and The Villages near Orlando were the fastest growing metro areas in the U.S. last year. Younger workers have led to employment booms in Florida, Georgia and Nevada, all growing at almost twice the rate of the nation.

The 2009 recession slowed this movement down because of the housing slump that severely hurt resident mobility. More people are once again

S&P 500 Index

3 Month	5.11%
Year-to-Date	7.16%
1 Year	17.91%
3 Year	10.49%
5 Year	13.55%

MSCI EAFE Net Index

3 Month	6.73%
Year-to-Date	9.97%
1 Year	11.29%
3 Year	0.74%
5 Year	6.84%

Barclays Aggregate Bond Index

3 Month	1.52%
Year-to-Date	1.59%
1 Year	0.83%
3 Year	2.59%
5 Year	2.30%

As of 4.28.2017

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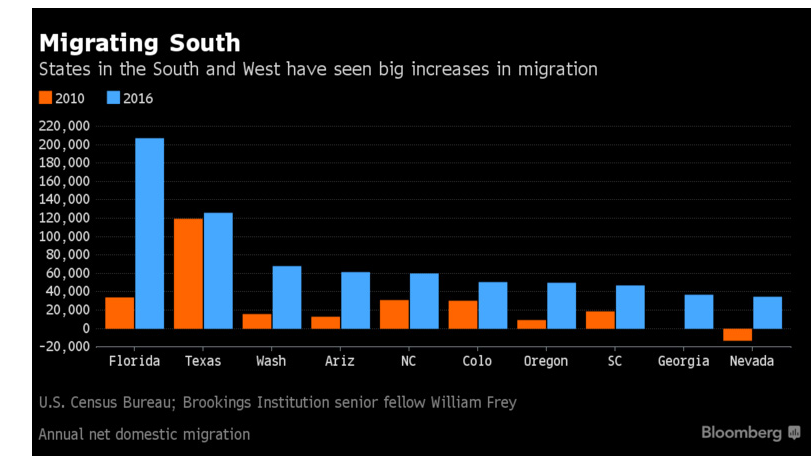
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moving south and west for better jobs, and there is retiree migration as well. Sun Belt migration fell by almost half between 2005 and 2010 as aging baby boomers delayed retirement in the wake of

both plunging home prices and retirement accounts, which forced many to postpone relocation plans.

Florida added 207,155 people in 2016, or almost 600 people a day. By contrast, New York, Illinois and California each lost more than 100,000 people. Mobility of American workers represents an important part of the nation's dynamic economy, and low migration has concerned economists because it tends to hurt the labor market's function ability. Even with the Sun Belt pickup, overall interstate moves are half the level of 1990, according to the Population Reference Bureau in Washington. Demographers say the pickup in the Southeast and West likely represents the start of a broader mobility. The uptick has to do with a return of the job and housing markets. Now young adult millennials are starting to make their way to rapidly growing regions driven by better employment opportunities.

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