May 16, 2019

NTA Spring Symposium
Observations on Tax Reform & Markets

Morgan Stanley Research
North America
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US Corporate Effective Tax Rate: The Downward Trend

Top 1,000 US Firms by Market Capitalization

- Federal Statutory Corp Rate
- Median Effective Tax Rate
- Median "Cash" Tax Rate

Source: Factset, IRS, Morgan Stanley Research
S&P 500 Valuation Peaked with Passage of Tax Bill, Earnings Revisions Followed

Source: Company Data, Morgan Stanley Research

May 16, 2019
One Year Later: Change in 2019 est. Median Tax Rates, by Sector

We use forward consensus expectations to control for one-time items and distortions from remeasurements of deferred taxes.

2018 y/y Growth in Divs, Buybacks, and Capex + R&D: ‘Cash Rich 100” vs S&P 1500

Source: Company Data, Morgan Stanley Research

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163(J): Gross Amount of Lost Interest Deductions, by Sector

Source: Calcbench, Morgan Stanley Research; Data as of end of March 2019

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Gross Impact from GILTI Tax, by Sector

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<tr>
<th>Sector</th>
<th>Impact</th>
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<tr>
<td>Health Care</td>
<td>$519M</td>
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<tr>
<td>Materials</td>
<td>$385M</td>
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<tr>
<td>Industrials</td>
<td>$329M</td>
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<tr>
<td>Information Tech.</td>
<td>$310M</td>
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<tr>
<td>Consumer Dis.</td>
<td>$232M</td>
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<tr>
<td>Consumer Staples</td>
<td>$181M</td>
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<tr>
<td>All Others</td>
<td>$230M</td>
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Source: Calcbench, Morgan Stanley Research; Data as of end of March 2019

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Where’s the BEAT? Gross Reported Impact (vs GILTI)

Source: Calcbench, Morgan Stanley Research; Data as of end of March 2019

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Gross Benefit from FDII, by Sector

Source: Calcbench, Morgan Stanley Research; Data as of end of March 2019

~$790M / 41% of Total = 5 Aerospace & Defense Firms
### Corporate Provisions

<table>
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<th>Policy Expiration</th>
<th>Estimated Cost/Benefit</th>
<th>Sectors Impacted</th>
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<tbody>
<tr>
<td>Immediate expensing of research and experimentation costs, rather than amortization over 5 years</td>
<td>End of 2021</td>
<td>($240B)</td>
</tr>
<tr>
<td>Deduction for Business net interest expense at 30% of EBITDA, rather than 30% of EBIT</td>
<td>End of 2021</td>
<td>($150B)</td>
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<tr>
<td>Three international-related provisions (GILTI, FDII, &amp; BEAT) stay at current levels</td>
<td>End of 2025</td>
<td>($140B)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>($780B)</strong></td>
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Source: Tax Foundation, Joint Committee on Taxation, Morgan Stanley Research Estimates

May 16, 2019
Scheduled Tax Cliffs Create Real Cost of Capital Headwinds

Est. Marginal Effective Tax Rate on 5-year MACRS Property

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