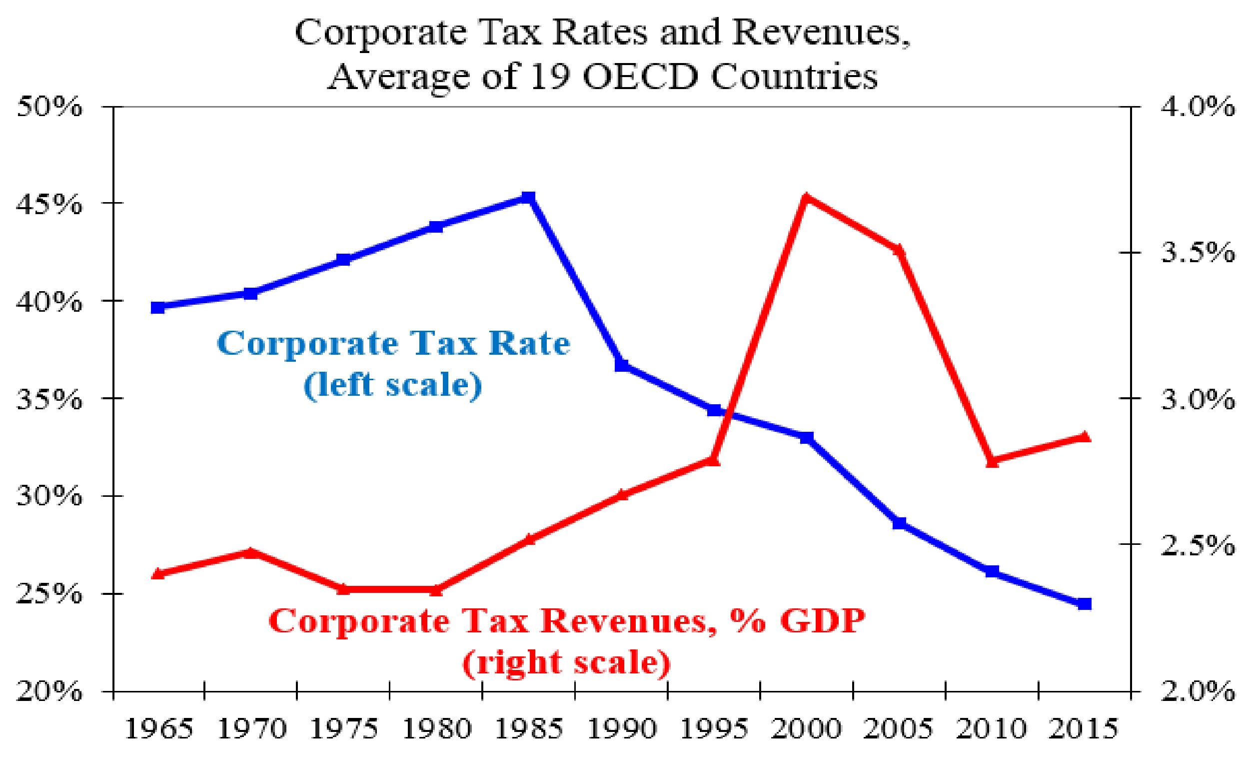
To: Main Management
From Dick Fredericks
Re: Corporate Tax Rates and Collected Tax Revenues
October 31,2017

Tomorrow the House of Representatives will unveil its tax proposals. While there will be much horse-trading once the package is revealed, we believe arguments will be made around the issues of the deductibility of state and local taxes and whether the top individual rate will remain at its current level. What does seem to be consistent and not subject to much, if any, debate is a reduction in the corporate rate from 35% to 20%. The chart below, which was produced by the Cato Institute, shows a 50-year history of corporate income tax rates and the collected tax revenues of 19 OECD countries (1). While there are more OECD nations than that, the 19 countries were chosen because they had good data going all the way back to the 1960s.



An observer will note that the corporate tax rate for the 19 countries rose between 1965 and 1985 from 40% to 45% yet collected revenues barely budged as a percent of GDP for those countries. The story

changed dramatically after 1985 when the average tax rate of the 19 OECD countries dropped from 45% in 1985 to 29% in 2005. The result: collected taxes soared. The 19-country tax rate continued down until 2015 (last data available) where it has reached a 50 year low of 24%. Observers are right to notice that the collected taxes peaked around 3.6% of the group's GDP in 2005/6 and has trended down through 2010 most likely due to the aftermath of the 2008/2009 worldwide recession and a slower growth trend in the aftermath. The key takeaway in our mind, however, is that the trend has turned back up recently and the 2015 level of corporate taxes relative to GDP amount to 2.9% and that result is higher than all the years leading up to 1985 when the posted tax rates were much higher.

We think it is instructive to include the chart that we had in our 4/18/17 piece entitled "Thoughts on Taxes" which depicts the position of the USA versus other high marginal tax rate countries (see below). In that piece, we noted that The United States, with its corporate tax rate at 39%, has the *HIGHEST* corporate tax rate amongst the 35 member countries of the OECD (see here**) or amongst the G20 (see** here**). Widening the lens, the US corporate tax rate amounts to the 3rd highest amongst 188 countries in the world (see below). Only the United Arab Emirates and Puerto Rico have higher rates than our country. We further noted that in late 2016, the OECD published its annual report and stated that Japan, Spain, Israel, Norway and Estonia have all lowered their tax rates on corporate profits in 2015. Meanwhile, future reductions have been announced by France, Italy, and the UK, and Japan is considering cutting again. The OECD went on to say that the average tax rate for corporate profits had declined from 32% in 2000 to 26% in 2008, after which time, the rate of decline slowed. While the 2016 figure was similar at 25%, the OECD stated that the downward trend now looks to be quickening again.**

Table 1. Twenty Highest Top Marginal Corporate Tax Rates in the World

Country	Top Rate	Region
United Arab Emirates	55.0%	Asia
Puerto Rico	39.0%	North America
United States	38.9%	North America
Argentina	35.0%	South America
Chad	35.0%	Africa
Congo, Democratic Republic Of The	35.0%	Africa
Equatorial Guinea	35.0%	Africa
Guinea	35.0%	Africa
Malta	35.0%	Europe
Virgin Islands, U.S.	35.0%	North America
Zambia	35.0%	Africa
India	34.6%	Asia
Sint Maarten	34.5%	North America
France	34.4%	Europe
Brazil	34.0%	South America
Venezuela	34.0%	South America
Belgium	34.0%	Europe
Monaco	33.3%	Europe
Saint Lucia	33.3%	North America
Cameroon	33.0%	Africa
Worldwide Average	22.5%	N/A
Worldwide Weighted Average (by GDP)	29.5%	N/A

Assuming we are right that the proposed corporate rate will be 20% under the new tax bill, the following two charts show where the USA will stand against other OECD countries and against our major competitors.

2017 CORPORATE INCOME TAX RATE BY COUNTRY

United States - Current	38.91%
France	34.43
Belgium	33.99
Germany	30.18
Australia	30.00
Mexico	30.00
Japan	29.97
Portugal	29.50
Greece	29.00
New Zealand	28.00
Italy	27.81
Luxembourg	27.08
Canada	26.70
Austria	25.00
Chile	25.00
Netherlands	25.00
Spain	25.00
Korea	24.20
Israel	24.00
Norway	24.00
Denmark	22.00
Sweden	22.00
Switzerland	21.15
Slovak Republic	21.00
United States - Proposed	20.00
Estonia	20.00
Finland	20.00
Iceland	20.00
Turkey	20.00
Czech Republic	19.00
Poland	19.00
Slovenia	19.00
United Kingdom	19.00
Latvia	15.00
Ireland	12.50
Hungary	9.00
Switzerland	8.50

Source: OECD

UNITED STATES VERSUS
MAJOR COMPETITORS

UNITED STATES - CUI	38.91%
EUROPEAN UNION	22.45
OECD AVERAGE	24.66
FRANCE	34.43
GERMANY	30.18
MEXICO	30.00
JAPAN	29.97
CANADA	26.70
CHINA	25.00
UNITED STATES PRO	20.00
UNITED KINGDOM	19.00
IRELAND	12.50

Source: OECD

We feel it is wise for the United States to lower the corporate tax rate to 20% and we look forward to the positive impact we expect on GDP, corporate inversions into our country, corporate income, capital spending, productivity, and particularly more jobs and higher income for America's workers all coupled with higher collected taxes.

(1) The 19 OECD countries included are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Spain, Sweden, United Kingdom, and the United States