

Tax Overhaul: Perspective from Economics

Tax Reform and the Impact on Utility Financials

Net Present Value

- Immediate expensing may raise the real cost of investment, especially if the cost of interest stops being deductible
 - Borrowed money is currently paid back over long periods of time, some recent borrowings have been for 50 years
 - What regulatory treatment to recognize added real costs?

Shift in Capital Structure?

- If effective cost of Debt goes up, will Equity become more attractive for financing?
- What will happen to the Cost of Equity?
 - It could go up: Companies would have to pay more to attract investors
 - It could go down: As more equities flood the market, the value of shares would decrease
 - Would bondholders shift into equities, so there would be more demand for them?
 - Would the returns for equities/shares more resemble those of bonds?

Are the President's and the House G.O.P.'s Plans Pro-cyclical?

- Estimates vary as to the net revenue impact, depending on which plan and whether static or dynamic scoring, but there are some in the \$3-6 trillion range over the next ten years
- If Federal deficit and debt rise, interest rates will rise faster than they otherwise would?

Unanswered Question:

- To what extent does giving tax breaks for R&D encourage R&D?
 - Conventional economics would say that investment is a function of cost, so lowering costs will increase investment
 - A counter argument: it is only the timing of investment that is changing
 - Alternatively: do companies invest as they need to, rather than as they can?

A Consumption-Based Tax

- Might magnify swings in inflation
- Would likely increase costs for highly-finished manufactured goods consumed by utilities
- Might not match WTO's rules on comparable taxes

Border Adjustments

- What will be the incidence of these taxes?
- Will they affect prices for non-substitutable imports consumed by public utilities?
- What will be the impact on forex?
 - What will be the impact on pension assets denominated in foreign currencies?
 - Will foreign exchange rates negate increases in the prices of imports consumed by utilities?
- Will currency hedges become more common?

U.S. DOLLAR/MEXICAN PESO

20.77930 -0.08450 (-0.41%)

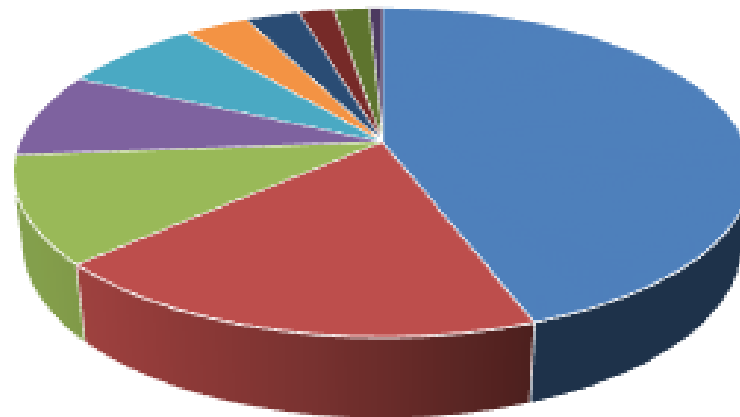
1d 1m 3m 1y 5y max

Prev	20.86	Open	20.86
High	20.93	Low	20.65



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% Contributions to Gross Trade Decifit, 2015



- China
- European Union
- All other countries
- Japan
- Mexico
- Korea, South
- India
- Canada
- Taiwan
- OPEC

%
Contribution to Exports, 2015

