How are U.S. Companies Spending Their Tax Savings?

Results from a Survey of S&P 100 Companies

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JUST capital

Michael W. Frerichs
Illinois State Treasurer

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Introduction

The Tax Cuts and Jobs Act (TCJA) represents a huge shift in capital in the market. In 2018, JUST Capital estimates that America's largest corporations by market capitalization, as defined by the Russell 1000 Index, are set to receive a windfall of nearly $150 billion tied to the legislation.

This tax cut presents one of the greatest opportunities in recent history for corporate leaders to invest in the long-term health of their companies and communities, enhance shareholder value, and ultimately help build a more just economy. According to recent polling conducted by JUST Capital that asked Americans how companies should allocate their tax savings, 56% of respondents shared that worker pay and benefits should be the top priority.

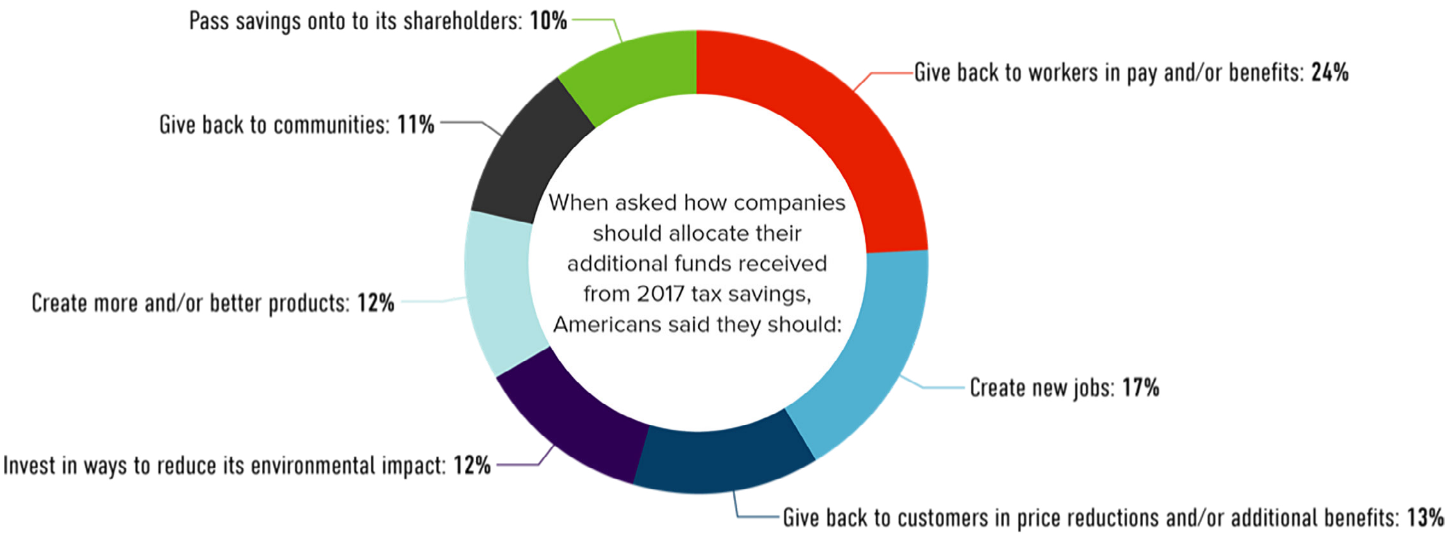
Investors, workers, and taxpayers alike believe it's critical to have a greater understanding of how that capital fulfills the stated intent of the tax cut to generate growth in the market, enhance long-term performance, and create broadly-based prosperity. As recently articulated by Larry Fink, Chairman and CEO of BlackRock:

> "Companies have not been explicit enough about their long-term strategies. In the United States, for example, companies should explain to investors how the significant changes to tax law fit into their long-term strategy. What will you do with increased after-tax cash flow, and how will you use it to create long-term value? This is a particularly critical moment for companies to explain their long-term plans to investors."[1]

Several efforts are underway to understand companies' plans for anticipated tax savings. **Illinois State Treasurer Michael Frerichs** led one such charge with fellow institutional investors **Sycomore Asset Management, Trillium Asset Management, CtW Investment Group, The Nathan Cummings Foundation, and Segal Marco Advisors.**

1 Fink, Larry. "Annual Letter to CEOs: A Sense of Purpose." BlackRock. 2018. https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

JUST Capital separately launched an effort, the Rankings on Corporate Tax Reform, to analyze how companies are allocating their tax savings from the TCJA. As part of their work to better understand corporate behavior on this issue, JUST Capital also conducted a special poll of the American public to determine what people believe companies should be doing with their tax savings. As part of this poll, respondents were asked what percentage of corporate tax savings should be allocated to a series of seven categories – shown below:



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Based on this special polling effort, it's clear that Americans believe companies should make workers the top priority for tax savings – with 24 percent of savings allocated to pay and benefits – and shareholders the lowest priority, with just 10 percent of savings passed on to them. These tracking efforts have aligned as the Illinois State Treasurer and JUST Capital have continued to request and track distribution plans from the largest publicly-traded companies headquartered in the United States.

Method

In order to learn more about companies' distribution plans, the Illinois State Treasurer Michael Frerichs and JUST Capital sent letters respectively to companies in the S&P 100 and the Russell 1000 to ask how they will use any expected corporate tax savings received as a result of the recent tax changes. This included a detailed questionnaire asking companies to answer a series of questions related to the priorities of the American people on distribution amounts and percentages (see addendum for questionnaire). The letters were sent, as stated by Illinois State Treasurer Michael Frerichs and fellow institutional investors:

> "To understand how these tax policy changes will impact not just next year's balance sheet, but also [companies'] strategy for sustainable long-term growth. Ultimately, we want to learn about the Company's intended asset allocation and whether the expressed goals of tax reform – job creation, wage increases, and economic growth – coincide with the Company's intended use of the assets."

The questionnaire was also made available to companies through JUST Capital's **Corporate Portal**, where companies can register to respond to the questionnaire and view the data JUST Capital collects for its ranking of **America's Most Just Companies.**

Results and Conclusions

Response Rate

From the beginning of March 2018 through July 1, 2018, the Illinois State Treasurer and JUST Capital received responses from 48 companies among the S&P 100. Of those, 29 provided clear plans for their tax savings and 19 provided a broad statement articulating their general principles for how best to integrate tax savings into their business.

Tax Information

- **Estimated Tax Savings** – The 48 company respondents are estimated to save $44.8 billion as a result of the recent tax changes. This includes savings from both the lower tax rate and the annualized implied savings from the one-time repatriation at a substantially reduced rate (spread over eight years).

- **2012-2016 Adjusted U.S. Tax Rates** – The 2012-2016 adjusted U.S. tax rate (federal and state) among the 48 company respondents ranged from as low as 13.1 percent to as high as 48.2 percent, with an average of 30.2 percent.

Planned Use of Tax Savings

Where the plans are clear, or a company has separately announced their plans, JUST Capital has allocated planned investments into the following categories, mapped to the methodology used for its **Rankings on Corporate Tax Reform**:

- **Workers** – Includes wage increases; one-time bonuses; employee benefits such as enhanced parental leave, health insurance, 401k matching, and tuition reimbursement; employee training and development; investments in safer workplace facilities;
- **Customers** – Includes cutting prices for products and services; investments to improve customer service and experience;
- **Jobs** – Includes investments in capital spending or R&D intended to drive long-term job growth;
- **Communities** – Includes incremental charitable contributions; enhancing employee volunteer or matching gift programs; investments in products or services intended to benefit local communities;
- **Products** – Includes investments in product improvements or new product lines; expanded availability of financial or other products such as housing and commercial loans; and
- **Management and Shareholders** – Includes dividend hikes; share repurchases; increases to retained earnings.

As noted in Table 1 below, among the 29 companies that announced and quantified their plans for the use of tax savings, product investments received the largest share (17 percent), followed by investments in jobs (11 percent), workers (7 percent), customers (4 percent) and communities (3 percent). While this provides a degree of clarification as to how companies plan to distribute tax savings, it is important to note that these same respondents did not specify how the majority of estimated tax savings (58 percent) will be distributed.

Table 1: Planned Use of Tax Savings among Respondents

REINVESTMENT AREAS					
Products	Jobs	Workers	Customers	Communities	Unspecified
17%	11%	7%	4%	3%	58%

Planned Workforce Investments

Of the 29 companies with specific plans, 72 percent have committed to direct investment in their workforce. That includes:

- Ten permanent wage increases (34 percent of respondents or 10 percent of surveyed companies);
- Eight one-time bonuses (28 percent of respondents or 8 percent of surveyed companies);
- Three permanent increases in company contributions to retirement savings (10 percent of respondents or 3 percent of surveyed companies); and
- Seven companies investing in other worker benefits, such as career development, enhanced parental leave, or healthcare (24 percent of respondents or 7 percent of surveyed companies).

Nine companies announced investments in communities, six in customers, five in products, and four in job creation via incremental capital spending plans.

40 percent of respondents chose not to disclose their plans for their tax savings. Instead of disclosing specific plans or figures, these respondents replied by describing general capital deployment strategies or referring surveyors to previously issued reports with nondescript information on plans for the use of anticipated tax savings.

In total, among all S&P 100 companies surveyed, 81 percent either chose not to disclose their plans for any anticipated tax savings or chose not to respond.

Overall, the available disclosure provides investors and other stakeholders with clarity on how a sample of the largest U.S. companies are spending the tax savings. Looking ahead, this information is critically important in demonstrating a clear path toward financial success and long-term value.

Accordingly, investors will continue to push companies to disclose their plans as they come into focus.

Appendix

Tax Reform Questionnaire

The following survey is designed to understand your company's response in 2018 to the passage of the Tax Cuts and Jobs Act (TCJA). Please try to estimate the value of each investment that is directly attributable to the tax changes, excluding expenditures that were planned independently of them. To submit answer to the questionnaire on JUST Capital's corporate portal visit **http://corporate.justcapital.com**, or email **corpengage@justcapital.com** with questions.

Question	Value(s)
OVERALL TAX SITUATION	
1. What is your estimated effective federal corporate tax rate for 2018?	Percentage
2. All other things being equal, by how much do you estimate your 2018 tax liability has decreased as a result of the TCJA?	US Dollars
3. What is your estimate for the transition tax for the deemed repatriation of undistributed foreign earnings?	US Dollars
DISTRIBUTION OF TAX SAVINGS	
4. How much of your expected tax savings do you plan on passing along to your workers in the form of: a. Permanent increases in wages/compensation: ____________________ b. One-time bonuses: ____________________ c. Employee benefits (health care, paid time off, retirement savings, development & training, etc.): ____________________	US Dollars -OR- Percentage

5. How much of your expected tax savings do you plan on passing along to your customers in the form of lower prices/rates/fees?	US Dollars -OR- Percentage
6. How much of your expected tax savings do you plan on investing in your products in the form of: a. Research & Development: ______________________ b. Increasing production or distribution of products or services that are beneficial to human health, the environment, or society: ______________________	US Dollars -OR- Percentage
7. How much of your expected tax savings do you plan on investing in reducing your environmental impact?	US Dollars -OR- Percentage
8. How much of your expected tax savings do you plan to invest in expanding your U.S. workforce?	US Dollars -OR- Percentage
9. How many jobs do you estimate will be created in 2018 as a result of these activities?	Number of jobs
10. How much of your expected tax savings do you plan on passing along to communities in the form of: a. Charitable giving: ______________________ b. Community development programs/initiatives: ______________________ c. Enhanced management of social impacts in the supply chain: ______________	US Dollars -OR- Percentage
11. How much of your expected tax savings do you plan on passing along to your shareholders in the form of: a. Share buybacks: ______________________ b. Dividends: ______________________ c. M&A: ______________________ d. Paying down debt: ______________________	US Dollars -OR- Percentage
12. Please describe whether and how the company plans to structure executive pay differently given that performance-based executive pay no longer receives special treatment under the new tax code.	Narrative