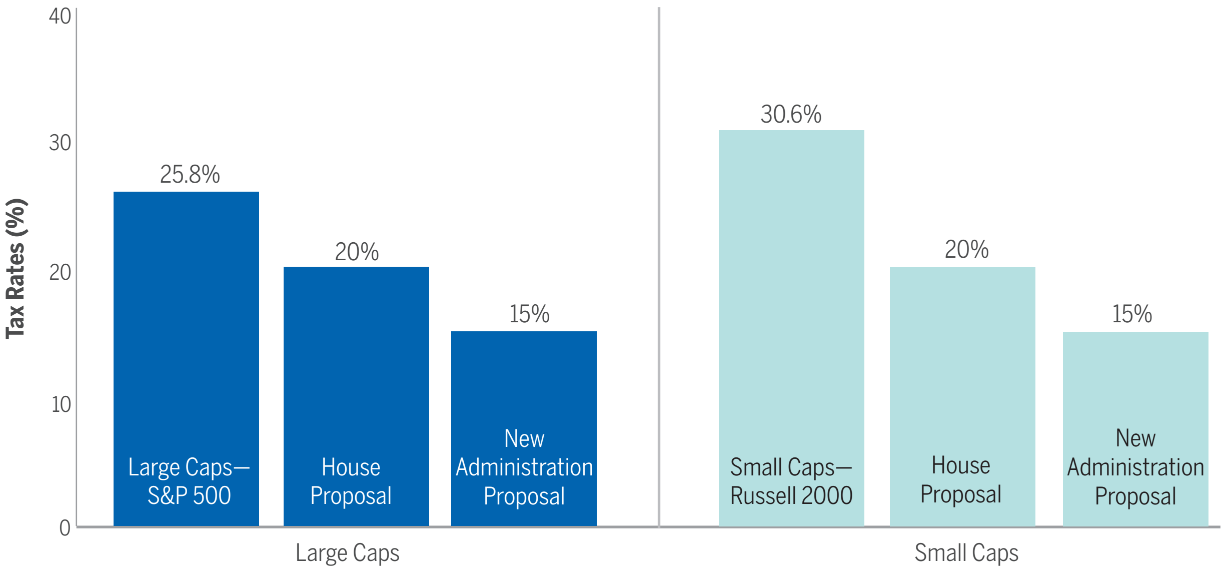
Small Caps May See Big Gains Under New Tax Proposals

Some proposals by the new administration and House of Representatives Republicans lower corporate tax rates, making U.S. tax rates more in line with global peers. How can you benefit as much as possible from the potential change?

Comparison of Current Corporate Effective Tax Rates versus House and New Administration U.S. Proposed Statutory Rates



Source: Factset. Large cap and small cap effective tax rates are 2016 estimated weighted median. House and new administration tax proposals are for statutory rates for the U.S. only while the effective tax rates shown are blended U.S. and international effective rates.

- Small caps have outperformed large caps since the election. However, the category can maintain positive momentum if either the new administration's proposed corporate tax rate of 15% or the House of Representatives Republican corporate tax plan of 20% is enacted.
- Small caps generate a larger percentage of revenues and profits from the U.S. than large caps and, therefore, will likely benefit more from lower U.S. taxes. It is estimated that a ten percentage point deduction in the statutory rate would boost large cap earnings by 8% versus 12% for small cap companies.
- Additionally, small caps tend to outperform large caps in a rising rate environment—something we have seen following the presidential election.

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