

Alternative Investments and US Corporate Tax Policy

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Alternative Investments and Portfolio Diversification

Over the years, investments such as commodities have moved more in sync with stocks as investors have forgotten easier access to 'alternative 'investments'; the value of these assets has tended to fall. The mutual fund industry was hugely impacted by the creation of the world's first index mutual fund. The nature of alternative investing is yet to be clearly defined, which has had market watchers wondering whether investments will follow the usual trend or whether something has changed to doom the 'alternative' nature of alternative investing. The 'modern portfolio theory' is that a portfolio composed of diverse asset classes where the values don't fluctuate dramatically but change their values at a steady pace because the components don't all move in sync.

When two variables fluctuate together, they can do so in a way that is related, and this can be measured by a statistical measure known as correlation. A positive measure shows the extent to which those variables increase or decrease in parallel, whereas a negative one shows how much one variable increases as the other decreases. Research has it that commodities REITS and hedge funds have profoundly increased their correlation stock returns since 2009. Commodities have made the largest jump in correlation, including oil and gas, industrial and precious metals, agriculture and livestock. Following the recent recession in 2008, commodity and equity prices reacted in the same manner to the same common shocks,' specifically levels of aggregate demand as well as the shape of the recovery (Idowu, 2013). In this case, aggregate demand means the total demand for goods and services within a particular market. Mr. Bernstein said recently. Analysis of data that was recently obtained shows that the correlation between asset classes is constantly changing. This makes it difficult to note from the data as to whether a difference may be a blip or marks the beginning of an inevitable shift in the market.

Index Funds and Exchange-Traded Funds

The first mutual fund has had an adverse impact on the mutual fund industry. The market share of index funds has grown over the years and now constitutes more than a trillion dollars and 6.2 trillion dollars in total equity funds. Over the years, the model has adjusted which saw the classic mutual fund and its dominance come to an end. This is seen by the minimal change of growth from 1999, where it changed from 9%, increasing by 1% as of today. Simply put, ETFs are merely figures of index

funds that show the market share that has already been accounted for, and that needs to be traded so that they cannot reach the level of classic index funds. If the ETFs provide higher tax efficiency and operate at lower expense ratios, they then make the lower costs diversify. ETFs can then be viewed as ideas that are short term.

As time goes on, trading tends to overwhelm diversification as the force with which the ETF world is driven. Those that have been leading, according to statistics from the current market, are known to be the fastest-growing sectors within the ETF marketplace. Those leading the recent bull market include newcomers such as commodities and those that have been there, such as real estate, energy, and emerging markets, among many more. The main feature of the classic index fund is that only those who invest will earn what is due when the stock market makes its return. The fact still remains that those who choose to trade ETFs are not guaranteed their return. In fact, in the long run, a typical ETF investor would have no idea what the extra costs, the selection changes, the added taxes, and the timing risks relate to his investment and how much each returned to the stock market (Gravelle, 2009). By monitoring how ETFs have grown, one can make a lot of conclusions on how money managers are focusing on gathering assets for themselves, empowering firms that offer brokerage services, assuming the activities of a financial advisor, and how willing investors are to look for more complex systems compared to simple ones. They continue to believe that they can beat the market despite anything coming their way.

ETF Management and Intermediation Costs

One does not need management in any conventional way to manage ETFs index funds. In addition, given that it is one investor that trades his shares to another via the stock market, then the managers do not have to go through the headache of keeping records which was present in the traditional method. Investors learn to accept these costs in other forms, such as commissions each time shares of ETF trade. ETFs are, therefore, a goldmine to brokers too. From the basic rules of the market, the fundamental mathematics rules state that: Gross return in the market less the costs of financial intermediation, equals the net return actually delivered to the market participants (Steuerle, 2008). From this, it is simple to see that the returns of investors in a group have to be reduced for the ETFs to increase the intermediation costs. ETF, hence, earns billions of dollars for many financial intermediaries. Events got to turn out not as expected. To begin with, the ETF format was selected by first weighing the new indexers that were considered fundamental. They included dividends, corporation profits, and corporate revenues instead of the old market capitalization-based indexes.

United States Corporate Tax Policy

The war between the Democrats and Republicans concerning corporate tax games is still on. Obama's administration, for eight years, tried to stop these games and make it easier for companies in the United States to seek opportunities overseas and invest there. However, with Trump taking over and

the Republicans being the majority, efforts by the Obama regime have been reversed. The tax field is no longer level. As much as the liberals are against these moves, they can't seem to do anything about them as they don't have the numbers (Bakija, Cole & Heim, 2012).

Corporate Tax Rates and Inversion

To begin with, the corporate rate was cut from 35% to 20%. This means that companies now have a difficult time investing in countries that have lower tax rates than the United States. This also limits the ability of companies to invert. Inversion refers to when a big company merges with other foreign companies that compete with them so as to lower the tax rates more. Inversion made it possible for companies to compete on a global scale. With the laws that are currently in place, companies that had inverted find it difficult to return their revenues back to the United States as they face being sliced 35% tax by the government. It is approximated that there is \$2.5 trillion abroad.

To solve this, the government has to act like Ireland and lower the rate. Ireland's rate stands at 12.5%, and hence, the country does not have to deal with base erosion. Base erosion refers to safeguards that exist within countries that have territorial systems. This happens mostly in economies that are advanced. Base erosions allow for companies not to shift domestic income using foreign partners so as to lower what they are being taxed by their governments.

Base Erosion and Republican Tax Reforms

The house of Republicans has, however, provided provisions through legislation that show how they will be able to do away with base erosion but still maintain the high corporate tax. These legislations will work to prevent organizations from acquiring loads of debt in the U.S., too, while at the same time preventing the practice of earnings stripping, which the Obama administration seeks to do.

In the long run, it is clear that as much as the new regulations look harsh, they will work not to make a few people reach but to fix the corporate community that has, for years, not been as competitive as it should be.

Memo To My Company's CEO

To:

From:

Date:

Cc:

Based on the current economic situation, it seems impossible to venture into other international markets with the headquarters of the company still remaining here. This is largely because of the ongoing corporate tax games in the country. The move by the Republicans to reform tax laws that had initially been set up by the Obama administration is not pleasant for companies that are looking to invest in other countries but still centralize all their activities in the United States. This is so because of the 35% tax rate that has to be slapped on companies that bring their untaxed profits home from overseas. This is totally against the concept of inversion that was introduced during the Obama regime, and that was meant to allow American companies to easily get to international markets so as to allow them to compete globally. The taxation rate stood at a manageable 20%.

Recommendation for International Expansion

If the plan to get into international markets is still on, I would then suggest that you make the international branches of the company independent in the regions that they will be set up. This means that the overall organization will have to be decentralized away from the main organization in the United States. This way, profits or monies coming from those organizations would not be slapped with the 35% tax rate that is currently being imposed on such transactions. This may be expensive to do at first as it requires registration of the independent branches as new companies. However, in the long term, it is beneficial to the company if the laws set up by the Republicans are by any chance to stay for long.

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