

**From:** Richard Kahn <[REDACTED]>  
**To:** Jeffrey Epstein <jeevacation@gmail.com>  
**Subject:** Fwd: AAPL US: Apple Inc. - Deep Dive - Benefit from lower U.S. tax rate, but border tax could be onerous - BUY - United States  
**Date:** Fri, 13 Jan 2017 13:18:11 +0000

**Attachments:** AAPL.pdf

**Inline-Images:** flag11700899.jpg; logo11700899.jpg; rpt11700899.jpg; email11700899.jpg; bamllogo11700899.jpg; image001gif01D26D71D83241B0.gif; bamllogo11700899(1).jpg; flag11700899(1).jpg; logo11700899(1).jpg; email11700899(1).jpg; rpt11700899(1).jpg; image001gif01D26D71D83241B0(1).gif

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Begin forwarded message:

**From:** "Ens, Amanda" <[REDACTED]>  
**Date:** January 13, 2017 at 7:52:11 AM EST  
**To:** "Rich Kahn" <[REDACTED]>  
**Subject:** AAPL US: Apple Inc. - Deep Dive - Benefit from lower U.S. tax rate, but border tax could be onerous - BUY - United States  
**Reply-To:** "Ens, Amanda" <[REDACTED]>

Global Research



Apple Inc.

## Deep Dive - Benefit from lower U.S. tax rate, but border tax could be onerous

Maintain Rating: BUY

PO: 125.00 USD | Price: 119.25 USD

Equity | 13 January 2017

### Key takeaways

- We present a deep dive on taxes. Lowering the U.S. statutory rate to 20% could be \$0.75-\$1.30 accretive to earnings
- A border-adjusted tax could reduce Apple's annual earnings by \$1.50. The combined impact could reduce earnings by \$0.20-\$0.75
- Apple could repatriate all its foreign cash by paying the deferred tax liability on Balance Sheet if repatriation tax is 10%

FULL  
REPORT

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### Deep dive into the implications of lower tax rates

We look at three aspects of potential tax law reform and their implications on Apple, while acknowledging that there is significant uncertainty around any ultimate legislation. First, we consider a lowering of the repatriation tax on foreign earnings from 35% to 10%. Second, we look at the potential EPS benefit from a lowering of the U.S. statutory tax rate from 35% to 20% combined with removal of interest deductibility. Third, we consider the impact of a potential border-adjusted tax rate. We conclude: 1) existing deferred tax liability on the balance sheet could allow for substantially all of Apple's foreign cash to be repatriated to the U.S. (Fig 2) if the tax rate on such is reduced to 10%, 2) lowering the U.S. statutory tax rate could be \$0.75-\$1.30 accretive to earnings (higher if Apple continues to declare ~45% of its foreign earnings as permanently reinvested outside the U.S), and 3) a border-adjusted tax could reduce Apple's annual earnings by ~\$1.50 or the net impact could reduce earnings by \$0.20-\$0.75. Maintain Buy.

### Deferred tax liability could allow significant repatriation

Apple has \$216bn (~91%) of its cash outside the U.S., and approximately 67% of Apple's annual global earnings are foreign. Apple has designated a cumulative \$110bn of foreign earnings as indefinitely reinvested outside the U.S. and has provisioned for U.S. taxes on the remaining portion. Every year, Apple provisions for U.S. taxes on about 70% of its global earnings. If the repatriation rate is reduced to 10%, Apple could substantially repatriate all of its offshore cash by paying the taxes already provisioned. This would allow for a significant arsenal of cash for incremental capital return and ██████, in our view.

## Lower statutory tax benefit could be offset by border tax

Figure 4 shows that Apple could lower its effective tax rate to 16% by continuing to designate a portion of its foreign earnings indefinitely reinvested outside the U.S (EPS accretion of about \$1). By our estimate, a border-adjusted tax would lower earnings by ~\$1.50 and the net impact of both statutory tax reduction to 20% and a border-adjusted tax would reduce earnings by \$0.20-0.75 (Fig 6). It may be beneficial for Apple to provision U.S. taxes on its entire foreign earnings so that it can repatriate more cash for capital returns, [REDACTED], debt pay-down or [REDACTED] investments.

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