Abstract

Tax reform has been on the congressional agenda for the past few presidential administrations. The Trump Administration recently passed the Tax Cuts and Jobs Act along partisan lines. The Tax Cuts and Jobs Act provides much needed reform to a tax system that politicians have described as “broken.” It gives tax breaks to corporations that have not been seen since the Reagan Administration. The purpose of this thesis is to evaluate how certain corporations are choosing to spend their tax savings from the Tax Cuts and Jobs Act. The research conducted is mainly qualitative in nature. Early analysis of the retail industry has shown that the cutting of the corporate tax rate has led to more money in employees’ pockets in the form of increased wages and one-time bonuses. The utilities industry has taken a different approach to their tax savings than the retail industry. The majority of tax savings of major utility companies has been passed directly to consumers in the form of lower monthly rates. Even after taking all this information into account, it is still too early to judge the TCJA and further research will be necessary in order to determine the long-term effects of the tax bill.
Author’s Biographical Sketch

Alexandra Wilkinson currently attends North Central College in Naperville, IL where she is a senior. Her major is accounting, CPA Track with a minor in finance and aspiration to obtain an MBA in the future. At North Central College, Alexandra has studied abroad in Greece, Italy, and Ireland, been a part of the volleyball and track teams, an athletic mentor, a financial and managerial accounting tutor, and is a member of the college scholar’s program. Alexandra has secured a position with Exelon where she will begin working in the company’s Leadership Development Program in August 2019.
Acknowledgments

This study would not have been possible without the help and support of professors and staff at North Central College. I would like to thank Professor Kristin Geraty, director of the honors program, who gave me the opportunity to be a part of North Central’s College Scholars program. Never would I have thought I’d write a thesis during my four years of undergrad, but I’ve come to realize completing a thesis is one of the most rewarding ways to finish my education at North Central College. The two professors that guided me through my research were Professor David Gray and Professor Ryan Decker. My advisor and first reader, David Gray, is an associate professor of accounting and chair of accounting and finance at North Central College. My second reader, Ryan Decker, is an assistant professor of economics and finance at North Central.

Professor Gray and Professor Decker were patient and understanding as I balanced my thesis research with college courses and job interviews during my senior year. Both professors utilized their knowledge in each respective business field to help me gain a greater understanding of the Tax Cuts and Jobs Act, and how the tax reform effects corporations. I would like to thank my family and friends who were always there to offer love and support. My parents have always pushed me to strive for success and have shaped me to be the person I am today. My boyfriend, Raymond Kraus, who was my backbone through conducting my research and completing my thesis. Finally, my friends and accounting peers Samuel Kharasch and Michael Mitchell who gave valuable input with regard to my study.
# Table of Contents

Corporate Tax Cut: Where Has the Money Gone? ................................................................. i
Abstract ................................................................................................................................. iii
Author’s Biographical Sketch .............................................................................................. iv
Acknowledgments ................................................................................................................. v

Chapter I ................................................................................................................................ 1

Chapter II ............................................................................................................................... 5
  Retail Sector ......................................................................................................................... 5
    Walmart ............................................................................................................................. 6
    Costco ............................................................................................................................... 7

Utilities Sector ....................................................................................................................... 9
  Exelon .................................................................................................................................. 10
  Xcel Energy ......................................................................................................................... 11

Chapter III ............................................................................................................................. 13

Walmart ................................................................................................................................. 14
  TCJA Disclosure ................................................................................................................. 14
  Effective tax rate ................................................................................................................ 14
  Bonuses and Benefits ........................................................................................................... 16
  Wage increase ..................................................................................................................... 18
  Share repurchases ............................................................................................................... 19

Costco .................................................................................................................................... 23
  TCJA Disclosure ................................................................................................................. 23
  Effective tax rate ................................................................................................................ 23
  Bonuses and benefits ........................................................................................................... 24
  Wage increase ..................................................................................................................... 25
  Share repurchases ............................................................................................................... 26

Exelon .................................................................................................................................... 28
  TCJA disclosure .................................................................................................................. 28
  Effective tax rate ................................................................................................................ 29
  Customer price adjustment ............................................................................................... 30

Xcel Energy ............................................................................................................................ 32
Chapter I
Purpose and Significance of the Study

On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act into law. The bill officially went into place on January 1, 2018. The Tax Cuts and Jobs Act, or “TCJA” as it has come to be known, has gained a lot of attention from both corporations and individuals. It is the most extensive reform to the US tax code in over thirty years (“US - President Trump”, 2017). The reduction in the corporate income tax rate is one of the largest changes that the TCJA will bring.

Businesses and individuals alike have been calling for tax reform in the US for the better part of the last decade. President Obama was also vocal about the need for changes to the tax code during his presidency. While no major tax reform as extensive as the TCJA was passed during Obama’s Presidency, he did call for a “simpler, fairer tax code that invests in middle class families” (“Fact Sheet”, 2015). Prior to the TCJA, the most recent comprehensive reform to the US tax code had been the Economic Recovery Tax Act under then President Ronald Reagan during 1981. Reagan’s tax reform had a similar objective to President Trump’s tax plan:

We presented a complete program of reduction in tax rates. Again, our purpose was to provide incentive for the individual, incentives for business to encourage production and hiring of the unemployed, and to free up money for investment. (Wessel, 2017)

This is a quote from President Reagan in 1981 when he was first presenting the Economic Recovery Act to the American people. If this statement sounds familiar, it is because Reagan and Trump both utilized similar rhetoric when discussing their respective tax plans to the country.

Both tax reform bills placed an emphasis on lowering tax rates for individuals and businesses in
order to boost economic activity and put more money in employees’ pockets. The idea behind cutting taxes across the board is that the economic growth stimulated by the tax cuts would make up for the increasing deficit that results from receiving less tax revenue, without corresponding spending cuts.

The TCJA brings a lot of change for individual tax payers as well as corporations. The raising of the standard deduction and changes to federal income tax brackets and rates have major implications. While these changes to the tax code are important, the focus of this study is primarily on the corporate aspect of the tax cuts. Companies received a sizable cutback in the prior tax rate of 35% to the new rate of 21%. President Trump has argued that this will incentivize American companies to keep their business operations in the US and help stem the flow of outsourcing. Another main goal of the TCJA is to get companies to repatriate overseas earnings by instituting a tax “holiday” on foreign earnings by taxing them on a reduced rate of 15.5 percent on cash and 8 percent on other assets (Herrick, 2018).

Preliminary evidence has shown that some corporations are using the TCJA to benefit employees, while other companies are giving the tax savings to shareholders as dividends or conducting stock buybacks. Some scholarly articles are making the claim that the TCJA will benefit wealthy CEOs rather than middle class employees as President Trump and the GOP insisted it would (Phillips, 2018). Other authors suggest that middle-class workers are already the primary beneficiaries of the tax reform (“Who Gains from Tax Reform 2.0”, 2018). During the 2018 State of the Union Address, President Trump discussed the newly signed tax bill:

We slashed the business tax rate from 35 percent all the way down to 21 percent, so American companies can compete and win against anyone in the world. These changes alone are estimated to increase average family income by more than $4,000. Since we passed tax cuts, roughly 3 million workers have already gotten tax cut bonuses — many of them thousands of dollars per worker. This is our new American moment. There has
never been a better time to start living the American Dream. (“President Donald Trump”, 2018)

While many would argue that President Trump is pandering to the people and is using selective statistics from the tax bill for the purposes of his speech, it remains to be seen if the middle-class will benefit as much from the new law as he claims they will. It should be noted that a lot of the criticism that the TCJA is garnering is along political party lines. President Trump has been a highly contentious political figure since he took office and Democrats have been reluctant to support his political agenda. The TCJA was passed without a single vote from members of the Democratic party (Clausing, 2018). Due to the highly disputable nature of the American politicized climate, this study will refrain from the more political aspects of the TCJA.

Before discussing how the TCJA affects corporations, it is important to identify what qualifies a business as a corporation. The two types of corporations are S corporations and C corporations. For the sake of this research, the sole focus will be on C corporations. The chart below provides a visual representation of the key differences between S corporations and C corporations.

See in appendix Figure 1: S Corp and C Corp Differences.

One of the main objectives, according to Trump, of the TCJA was to increase American companies’ competitiveness in the global market. The new business-friendly parts of the tax code will “boost the U.S. economy by increasing investment and productivity while making U.S. firms more competitive internationally” (McBride, 2018). Corporations have been outsourcing production as a way to avoid the US corporate tax rate for decades. Access to cheap labor and looser environmental regulations are a few other reasons why American companies had relocated to other countries or outsourced the majority of their production. Outsourcing of production from the US led to a reduction of jobs in the manufacturing sector and contributed to the weak
regional economies known as the “rust belt.” Having a corporate tax rate that is comparable to other countries allows American companies to compete more easily and possibly even bring back some of these lost manufacturing jobs. A lower tax burden domestically decreases a company’s incentive to take business operations overseas and would result in increased jobs growth in the US and tax revenue. While corporations make up as little as five percent of US businesses, they “account for nearly 40 percent of all business income” (McBride, 2018). Because they account for such a large percentage of business income, it is essential to keep these companies within the US. If the companies stay in the US, tax revenue will not be lost and can be spent elsewhere in order to grow the economy. This large percentage of tax revenue that businesses contribute to the federal government makes it even more important for the US to incentivize them to keep their headquarters within the country. The Republican Party has expressed confidence that the enactment of the TCJA will lead corporations to boost wages, build more offices and factories, and hire more US workers (Nibbe, 2018). Ultimately, the new tax law is thought to encourage corporations to invest more in the US.

**See in appendix Figure 2: New Corporate Tax Rate Compared to Other Countries**

An early analysis of the TCJA has led many experts to believe that tax reform will increase economic growth within the United States. Ernst & Young Global Vice Chair Jay Nibbe believes that the “U.S. economy will grow 1.2% faster per year as a result of the tax measure through 2022 before settling down to a modest increase in annual growth” (Nibbe, 2018). Historically, the Republican Party has used tax cuts as a way to boost economic growth and the TCJA is based upon this line of thought. Previous tax cuts have varied in success, so it remains to be seen if the TCJA will be as effective as Republicans claim. In this chapter, the TCJA has been covered on a more general basis and the purpose of this thesis has been introduced. The following chapters will focus exclusively on the effect the TCJA will have on corporations.
Chapter II
Introduction to Retail and Utilities Sector

For the purpose of this thesis, a small sample of firms in the retail and utilities industries will be evaluated. These sectors were selected because each corporation’s CEOs were vocal about how beneficial the tax plan would be for their designated industry and how they would be implementing plans to spend this windfall of tax savings. Both industries were chosen in order to demonstrate the impact the TCJA will have on two separate sectors. Prior to the implementation of the TCJA, “loopholes in the tax code resulted in favorable treatment of some industries and businesses at the expense of others” ("Tax Reform"). Companies such as Amazon have utilized loopholes for years in order to reduce their effective tax rate. In 2017, Amazon reported 5.6 billion dollars in US profit and paid no federal income tax (Gardner, 2018). Amazon’s “financial statement suggests that various tax credits and tax breaks for executive stock options are responsible for zeroing out the companies tax this year” (Gardner, 2018). In addition to paying zero dollars in federal income tax in 2017, Amazon has an effective tax rate of 11 percent over the past five years. They are a prime example of a major corporation that takes advantage of weaker areas of the US tax code. The IRS is actively working towards closing loopholes through the new tax reform. For example, the IRS recently released guidance closing a potential carried interest loophole (Donnelly, 2018). This loophole would have benefited investment fund upper management greatly. While some popular tax savings loopholes used by businesses have been addressed, these same businesses are still widely in favor of the new tax bill because of the tax savings it will provide to them.

Retail Sector

The retail industry accepted TCJA with open arms. The TCJA has given retail an ‘even playing field’ with other sectors in the US. Each year, retailers “pay billions of dollars in federal,
state, and local taxes, and collect and remit billions more in sales taxes to state and local governments” (“Tax Reform: The Retail Story”). Retail Retailers see a large opportunity presented to them in the form of a lower tax burden. The tax reform has “provided important relief for retailers, who have historically paid an effective tax rate more than 10 percentage points higher than average” (“Tax Reform”). Brick and mortar retail companies are at a disadvantage when compared to non-traditional, online retail businesses. Traditional retail companies have physical locations in the US and are unable to store portions of their revenue in other countries like some online retailers do. A boost to the retail industry is expected in part because the TCJA will be placing a larger amount of savings in individual’s pockets in the form of an adjustment of individual tax brackets. This revision is expected to entice consumers to spend parts of that extra money in the retail sector. It is estimated that the TCJA will “increase consumers’ spending by $100 billion in 2018” (Guarnieri, 2018). As a result of this increased spending, retailers will generate more revenue from consumers on top of the already substantial cutting of the corporate tax rate. From this perspective, the TCJA is an extremely business friendly bill that should boost GDP growth in the US over the next few years. The retail corporations that this research will focus on are Walmart and Costco. These companies were selected because of the differences in their public perception. Walmart has been demonized by the media for decades over the pay rate of their employees while Costco is well known for their good employee relations and high wages.

**Walmart**

Walmart has been subject to criticism from politicians, journalists, and some of their employees recently because of their plans for their newfound tax savings. They publicly declared that they “would raise the minimum wage for workers to $11 per hour on January 11, but the same day announced the closure of 63 Sam’s Club Stores” (Guarnieri, 2018). The sizable Sam’s
Club store closures left thousands of employees jobless. The announcement of increased wages coupled by layoffs left a poor image of Walmart in the public eye. While it has been stated publicly that these Sam’s Club stores were closed in part because they were underperforming, many have wondered if Walmart could have reinvested some of their tax savings into these stores and saved thousands of jobs. Walmart has also made the public claim that the company will be administering one-time bonuses to employees through tax savings from the TCJA.

Skeptics have pointed out that this is the third wage hike Walmart has implemented within the past two years. This wage hike seems to be more of a routine, yearly increase in the minimum wage rather than a direct result of the TCJA. The US unemployment rate “is down to just over four percent, very close to full employment” (Ydstie, 2018). This has led businesses to increase company wages in order to retain and incentivize employees. Detractors have also said that the very public nature of Walmart's recent wage hike was meant to appease President Trump. President Trump has been known to criticize companies publicly via Twitter. Because of his strong political base, companies are reluctant to be publicly denounced by the President. Fear of this criticism may have lead Walmart and other companies to pass off routine wage hikes as a direct product of the TCJA.

Costco

When discussing the enactment of the TCJA, Costco’s CEO Craig Jelinek stated that Costco will “evaluate the full benefits of the tax plan and likely invest more in its business and employees – perhaps even finding a way to decrease the company's already famously low prices” (“Costco Leadership”, 2018). This focus on the welfare of their employees over profits is reflective of what Costco plans to do with their tax savings. Similar to Walmart, Costco planned on increasing employee compensation prior to the enactment of the tax reform. In order to stay competitive in the sector, Costco and Walmart have decided to raise wages in order to attract the
best job candidates and retain current employees. One thing that Costco plans on doing that is
different than Walmart’s plan of action is avoid using the company’s tax savings for one-time
employee bonuses. Galanti made it clear that Costco is committed to maintaining a significant
wage premium overall and that Costco is “focused on more than just the headline number of
starting wages, or one-time bonuses” (Romano, 2018). As noted earlier, many have criticized
Walmart for taking this ‘headline’ approach to the new tax bill. Costco seems to be reinvesting
heavily in their employees in the form raised wages and employee benefits. Nearly 90 percent of
workers at Costco are paid hourly and “make on an average about $22.50 an hour and both full-
and part-time employees have access to medical, dental, and vision insurance at a cost of more
than $10,000 a year” (Romano, 2018). Costco’s benefits and hourly wages are unparalleled in
their industry. Their plans to distribute their tax savings from the TCJA reflects their industry
leading commitment to employees.

Both Walmart and Costco’s public comments on what the companies plan to do with
their respective tax savings are illustrative of how each company is taking a different approach.
Whether one approach is superior to another is subjective. Traditional corporate culture in
America dictates that company’s number one goal is to make a profit and pass this on to their
shareholders. Walmart and Costco’s plans for their TCJA tax savings are indicative of their
differing business models. Walmart employs over a million workers nation-wide and while they
do keep their wages competitive, they have always been known to be on the lower end in terms
of pay range. Costco on the other hand, pays employees almost twice as much as their
competitors on average and offers basic healthcare plans. Both companies have been extremely
successful over the past few decades and have emerged as industry leaders. Their differing
distribution plans for their newfound tax savings should come as no surprise. These plans are
simply a byproduct of how the companies operate. Walmart expects to improve the company’s
bottom line by closing unprofitable stores while also increasing the minimum wage of their employees in order to stay competitive on the lower end pay scale of retail. Costco is making more long-term investments into their employees with their tax savings because they believe that is the best way to continue growing the company.

**Utilities Sector**

The other sector of focus is the utilities industry. While the utilities sector received the same corporate tax cut as the retail sector, utilities tax savings are usually dealt with in a different way due to the nature of the industry. The utilities sector is one of the more unique sectors in the US. This is because nearly all public utilities are categorized as monopolies. A monopoly is defined as a “market situation where one producer (or a group of producers acting in concert) controls supply of a good or service, and where the entry of new producers is prevented or highly restricted” (“Monopoly Definition”). Utilities are considered monopolies because there is a limited amount of utility providers nationwide. These utility providers are divided into different regions so they do not have to compete with one another. Utilities operate as monopolies since a monopolistic market structure creates efficiency that would not be possible in a traditional competitive market. This means that if a utility company were to drastically increase the cost of electricity, the customer would have minimal options. The choice would be between paying the inflated bill or living without electricity. Because of this, the utilities sector is highly regulated by the government. The income generated by the utilities sector must be disbursed in a different manner than other sectors. It would be expected of retailers to allocate their tax savings to shareholders. This is because of the prevailing business culture in the US. The corporate culture in the utilities sector differs from traditional business culture because a large part of corporate tax savings is passed on to consumers in the form of lower rates.
With regard to the utilities sector, the two companies that will be evaluated are Exelon and Xcel Energy. Exelon is a prominent utilities corporation in the US and Xcel Energy is one of its main competitors. The utilities sector is known for being capital-intensive and has a history of re-deploying capital and earnings into new projects, driving economic activity and employment, and the Act appears to support and encourage companies to continue investing significantly in the US (“US Tax Cuts”, 2017). The nature of the utilities sector dictates that the tax savings from the TCJA will more likely than not be transferred back to customers in the form of lower electrical bills throughout the US.

**Exelon**

Early in the implementation of the TCJA, Exelon began discussing how the corporation would transfer the tax savings back to its customers. Exelon focuses on providing customers with both affordable and reliable energy (“Exelon Utilities”, 2018) and believes that the tax reform will assist the corporation in holding true to its business’ values. Exelon consists of six subsidiary companies across the nation that include ComEd, BGE, PECO, Atlantic City Electric, PECO, and Delmarva Power. On April 3, 2018, the corporation announced that “Exelon and its six utilities will be able to provide at least $675 million in savings to our 10 million utility customers across five states and the District of Columbia” (“Exelon Utilities”, 2018).

**See in appendix Figure 3: Exelon Subsidiaries tax savings break down**

Two of Exelon’s subsidiaries that tackled the tax reform on the front end of 2018 were BGE and ComEd. At the beginning of 2018, BGE actively sought permission from the Maryland Public Service Commission to pass nearly $82 million in tax savings on to customers in 2018 (Tweh, 2018). Likewise, ComEd followed a similar process of requesting permission from the Illinois Commerce Commission to disburse their allotted tax savings. ComEd expects to be able to pass on nearly $200 million to customers in 2018 and “if approved the average residential customer
could see a decrease between $2 and $3 on their monthly bill” (Tweh, 2018). While $2 to $3 a month does not sound substantial, any rate cut is preferable to a rate hike which companies tend to do more often. One of the hopes of the TCJA was that companies would take these tax savings and pass them on to consumers and use the tax savings to boost wages. More disposable income in American households leads to more economic activity. Exelon’s plan to cut their utility bills is an example of the TCJA succeeding in one of its main goals.

**Xcel Energy**

Another corporation that has been vocal about early implementations of the TCJA is Xcel Energy. As discussed earlier, Xcel Energy is among one of the leading utilities companies in the US. Like Exelon, Xcel Energy has made early promises that the corporation’s TCJA tax savings will be distributed to their customers. Due to the tax cuts, “Xcel Energy’s revenue needs in Minnesota will be reduced by around $140 million, savings that could be passed back to customers” (Hughlett, 2018). The TCJA has given the utilities sector the opportunity to invest the tax savings into customers as well as development within the corporation. While Xcel Energy will most likely be using the tax savings to keep customer bills low, the corporation will also be using savings from the tax reform to continue developing clean and sustainable energy to the public (Hughlett, 2018). Providing clean and reliable energy to customers is one of the top priorities for utility companies. In order to continue providing sustainable energy Xcel Energy must also consider the possibility of investing in research and development. On top of lowering customer bills with the tax savings, Xcel Energy believes that the board of directors may also “use the tax savings to pursue ways to reduce greenhouse gases” (“Utilities to Save Millions”, 2018). The issue of greenhouse gases is one of the largest problems our generation faces today. Utility companies such as Xcel Energy must invest in research and development in order to combat this dilemma and find possible solutions. The TCJA tax savings have indirectly provided
funding for research and development on issues such as this. While the entirety of the tax cut savings will not be handed to their customers as is the case with Exelon, reinvesting in research and development could prove just as beneficial for Xcel Energy’s customers in the future.
Chapter III
Evaluation and Results

The information presented in this section is from each respective company’s 2018 annual report. The snapshots reflect how the TCJA will affect each company’s financial outlook going forward. The annual reports for Walmart and Costco will be evaluated based on TCJA disclosures, effective tax rate, bonuses and benefits, wage increases, and share repurchases. For the utilities industry, Exelon and Xcel Energy are evaluated similarly to the retail companies. These categories provide qualitative evidence of how the TCJA is affecting these companies’ financials. Each company has an entire section devoted to the TCJA and its general effect on their tax rate, estimates, and net income. All four reports provide information on their effective tax rates in 2017 and 2018. For financial statement users, effective tax rate is one way to measure if the TCJA is delivering on one of its key promises to cut corporate tax rates. Comparing pre-TCJA effective tax rates and post-TCJA effective tax rates is one way to demonstrate how the tax reform influenced the financial reports in both years. In Walmart and Costco’s financial statements, bonuses and benefits are a key measure in determining if these companies are remaining true to their initial public statements and giving some of their tax savings back to employees. Similarly, Walmart and Costco have noted in their financials that certain wage increases can be attributed to the TCJA. While retail corporations have been very public about raising wages and delivering better benefits to their workers, they have also been buying back shares in increasing numbers. Traditionally, companies have used share repurchase programs to deliver wealth back to their shareholders and dividends. This has been met with criticism from some in recent years. The utilities sector is not as focused on share repurchases as the retail sector is. In their 2018 annual reports, Exelon and Xcel Energy seemed to be in agreement when discussing reducing rates for customers through tax savings from the TCJA.
In Walmart’s 2018 Annual Report, the company provided a brief overview of the TCJA. The disclosure discussed the newly enacted tax rate that was being reduced from 35 percent to 21 percent. This disclosure gave shareholders and financial statement users alike the opportunity to see how the TCJA would be affecting Walmart’s financial reports this year and in years to come. The corporation also stated that due to the complexity of the TCJA, they would be disclosing estimates on how it would affect them in future years. Walmart released these estimates to give shareholders more information on how the new tax law is currently affecting their business.

**Effective tax rate**

Our effective income tax rate was 30.4% for fiscal 2018 and 30.3% for both fiscal 2017 and 2016. Although relatively consistent year-over-year, our effective income tax rate may fluctuate from period to period as a result of factors including changes in our assessment of certain tax contingencies, valuation allowances, changes in tax laws, outcomes of administrative audits, the impact of discrete items and the mix of earnings among our U.S. operations and international operations. The reconciliation from the U.S. statutory rate to the effective income tax rates for fiscal 2018, 2017 and 2016 is presented in Note 9 in the "Notes to Consolidated Financial Statements" and describes the impact of the enactment of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") to the fiscal 2018 effective income tax rate.
A company’s effective tax rate is “the average percentage that is paid in taxes on taxable income” (“What Is an Effective Tax Rate”). Effective tax rate varies depending on industry. Walmart stated in their 2018 Annual Report that their 2018 effective tax rate was 30.4 percent, which is nearly identical to their effective tax rate of 30.3 percent in 2017 and 2016. In a separate disclosure, it was also noted that Walmart’s effective tax rate is subject to change in future years due to potential alterations in current tax law. In the section Effective Income Tax Rate Reconciliation, Walmart acknowledges that prior to the TCJA, corporations often kept some of their earnings in foreign countries in order to avoid paying US corporate income tax. With the enactment of the TCJA, the US corporate income tax rate is much more competitive with those of foreign countries. Walmart provided further detail in their Effective Income Tax Rate Calculation section on how the TCJA impacted their effective tax rate in 2018. The most
substantial tax impacts that occurred in 2018 were a one-time transition tax of 12.3 percent and deferred tax effects of 14.1 percent. The TCJA enacted this one-time transition tax as a way to move corporations to a lower tax rate. This transition tax has been introduced under the IRS section 965 Transition Tax code. Section 965 of the IRS code states, “United States shareholders (as defined under section 951 (b)) to pay a transition tax on the untaxed foreign earnings of certain specified corporations as if those earnings had been repatriated to the United States” (“Section 965 Transition Tax”). The one-time transition tax is being used as an adjustment for how the TCJA plans to enact foreign income taxation. The deferred tax effects refer to both deferred assets and liabilities for the company. This can be summed up as taxes that are payable in the future for Walmart. The corporation most likely had deferred tax effects due to the TCJA because the company must determine whether deferred liabilities should be paid under the past tax rate of 35 percent, or the current tax rate of 21 percent. As a result, the effects of deferred taxes are calculated to best represent how deferred tax assets and liabilities transfer over to the newly enacted tax rate.

**Bonuses and Benefits**

For fiscal 2018, operating, selling, general and administrative ("operating") expenses as a percentage of net sales increased 32 basis points, when compared to the same period in the previous fiscal year. While our increase in net sales and improving expense management had a positive impact on our operating expenses as a percentage of net sales, we did not leverage expenses as a result of approximately $0.6 billion of charges related to Sam's Club closures and discontinued real estate projects, approximately $400 million related to a lump sum bonus paid to associates, $300 million related to Home Office severance, a legal accrual of $283 million related to the FCPA matter, a charge of $244 million related to Walmart U.S. discontinued real estate projects, and the decisions to exit certain international properties and wind down the first party Brazil eCommerce operations.
In Walmart’s financials it is noted that employees were granted a $400 million one-time bonus. At first glance, this appears to be a substantial gain for Walmart employees. Upon further inspection, it seems that these bonuses may not be as beneficial as Walmart claims. It was announced in early 2018 that the company’s associates would be receiving up to $1,000 in bonus payments due to the lower tax burden placed on the company by the TCJA. On the surface this may seem like a generous effort to reward employees. It was not greatly publicized that “only employees with 20 or more years of Walmart employment will get the full $1,000” (Peterson, 2018) and “the money only goes to employees who were not impacted by wage increases that Walmart also announced in January” (Peterson, 2018). One could question if Walmart’s motives were sincere with regards to these one-time bonuses. By creating a bonus program, they appease President Trump and avoid potential criticism that could affect business operations. It is also interesting to note that Walmart’s accrued liabilities section of their financial statements indicates that between 2017 and 2018 there was an increase in accrued wages and benefits. It can be assumed that a portion of this increase represents the bonuses given to Walmart employees at the beginning of 2018. As discussed in the Wage Increase Financial Statement Evaluation section, Walmart made the decision to increase both “maternal and parental leave for salaried and hourly associates”. While the bonus program Walmart rolled out left a lot to be desired, they are improving benefits in order to compete with similar companies in the retail space.

<table>
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<tr>
<th>(Amounts in millions)</th>
<th>2018</th>
<th>2017</th>
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<tr>
<td>Accrued wages and benefits(^{(1)})</td>
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<td>$6,105</td>
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<tr>
<td>Self-insurance(^{(2)})</td>
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<td>3,922</td>
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<tr>
<td>Accrued non-income taxes(^{(3)})</td>
<td>3,073</td>
<td>2,816</td>
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<tr>
<td>Deferred gift card revenue</td>
<td>2,017</td>
<td>1,856</td>
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<tr>
<td>Other(^{(4)})</td>
<td>6,297</td>
<td>5,955</td>
</tr>
<tr>
<td><strong>Total accrued liabilities</strong></td>
<td><strong>$22,122</strong></td>
<td><strong>$20,654</strong></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Accrued wages and benefits include accrued wages, salaries, vacation, bonuses and other incentive plans.

Many of our customers also value the role we play in their communities. We provide good jobs for our associates with opportunity to build a career with Walmart. Earlier this year, we increased the starting wage for our U.S. associates to $11 per hour and expanded maternity and parental leave for salaried and hourly associates. Families are a priority to us and connecting with and caring for a new family member is obviously important. We’re working hard to provide opportunities for associates to be successful at Walmart or wherever their careers take them.

“A substantial amount of Walmart’s publicity regarding the TCJA was attributed to the company’s decision to increase employee minimum wage to $11 an hour. The corporation decided that their tax savings should be given partially to the associates of Walmart. Increasing employee wages was one of the main goals of the corporate tax reform. In this section, Walmart addresses that if the company fails to both maintain and entice associates, financial performance could be affected in the long run. While the company does not specifically say, it could be
assumed that increasing minimum wage to $11 an hour was one of Walmart’s attempts to retain and attract employees. Like the *Bonuses and Benefits* section, the total accrued liabilities presented in Walmart’s financial statements indicate an increase in accrued wages from 2017 to 2018. The second image displayed under the *Wage Increase* section is an excerpt from Walmart’s Management Discussion & Analysis. In this section of the financial statement, the company discusses how Walmart’s ability to have substantial financial performance is contingent based upon various factors. Some examples of these factors are employee retention, wage and benefit costs, and expansion of company operations.

*Share repurchases*

In 2018, Walmart returned an extensive amount of funds back to shareholders through dividends and share repurchases. At first glance, Walmart appears to be a company who is focused on providing the utmost benefits to the corporation’s employees. Top executives have been quick to point out that some tax savings have been given back to employees in the form of bonuses and a higher minimum wage. However, when looking more in depth at Walmart’s financial reports it seems that the wage increase to $11 per hour pales in comparison to the wealth shareholders have received from the corporation’s tax savings. Walmart has given $14.4 billion to shareholders in the form of dividends and stock repurchases. Like most corporations, Walmart has a company share repurchase program. Repurchase programs are authorized by the company’s Board of Directors. The corporation essentially buys back their own stock from the market in order to enrich their shareholders. Part of the rationale behind share repurchases lies in the fact that “a company can’t act as its own shareholder, repurchased shares are absorbed by the company, and the number of outstanding shares on the market is reduced” (Janssen, 2018). As a
result, Walmart can dictate how many shareholders the corporation will have. When evaluating Walmart’s total amount of share repurchases from previous years, it is seen that the number of shares repurchased from 2016 to 2017 nearly doubled. This can be attributed to the renewal of their stock repurchase program in 2017. From 2017 to 2018, the number of shares remained relatively in the same range. The company’s share repurchase program still remained in place in 2018. External research separate from Walmart’s 2018 annual report suggests that the Stop WALMART Act may have had an effect on share repurchases.

*Stop Walmart Act*

In relation to share repurchases, Senator Bernie Sanders and US Representative Ro Khanna have launched The Stop WALMART Act. The primary purpose of this act is to force large corporations, such as Walmart, to place the pay of workers at a higher standard than the company’s shareholders. Currently, Walmart plans to use company profits to buy back nearly “$20 billion of its own stock over a two-year period to enrich its executives and shareholders” (Sanders, 2018) instead of using the company profits to increase employee wages to a reasonable level. The Walton family is one of the wealthiest families in the US and are the largest shareholders of Walmart, owning nearly 50 percent of the company’s stock (Sanders, 2018). Sanders and Khanna emphasize the fact that the Walton family reaps the benefits of high profits, while Walmart workers struggle to survive on their hourly wage income each year. The TCJA seems to have only exacerbated this issue. A cutting of the corporate tax rate will most likely result in an increase in share repurchases in future years. To put some of these numbers into perspective Sanders stated, “last year four of the Waltons made $12.7 billion dollars in one day. To make as much as those Waltons did in one day, it would take a Walmart worker working
“full-time” earning $11 an hour over 653,000 years” (Sanders, 2018). The Stop WALMART Act would prohibit Walmart from issuing stock buybacks unless the corporation was to:

- Pay all employees at least $15 an hour, including part-time employees, independent contractors, and franchisee employees;
- Allow employees to earn up to 7 days of paid sick leave to be used to care for themselves or a family member; and
- Ensure that CEO compensation (or the highest paid employee) is not more than 150 times the median pay of all employees. The CEO of Walmart currently makes 1,188 times as much as the median worker.

“Sanders, Khanna Introduce Stop WALMART Act to Put Workers Over Shareholders.” Bernie Sanders U.S. Senator for Vermont, 15 Nov. 2018

Khanna claims that by increasing Walmart employee pay, taxpayers would not be liable for compensating Walmart employees who are living below the poverty line. Because Walmart has kept the minimum wage for their workers under $15 an hour, taxpayers have been responsible for nearly “$6.2 billion for basic necessities for survival, food stamps and housing assistance” (Sanders, 2018). Walmart is a highly profitable company and has the means to increase employee minimum wage to $15 an hour. Sanders and Khanna hope that by implementing The Stop WALMART Act corporations alike will be obligated to pay employees a reasonable wage before giving profits back to shareholders.
Costco

TCJA Disclosure

In Costco’s 2018 Annual Report, the company did not provide an overview of the TCJA. While there is no requirement for companies to disclose how the TCJA will affect their business operations, it is still surprising Costco did not have a dedicated section in their financial statements.

Effective tax rate

The effective tax rate in 2018 was 28.4% and was favorably impacted by the 2017 Tax Act and net tax benefits of $57. The effective tax rate in 2017 was 32.8% and was favorably impacted by net tax benefits of $104;


<table>
<thead>
<tr>
<th>Provision for income taxes</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective tax rate</td>
<td>28.4%</td>
<td>32.8%</td>
<td>34.3%</td>
</tr>
</tbody>
</table>

Our effective tax rate for 2018 was favorably impacted by the 2017 Tax Act, which included a reduction in the U.S. federal corporate rate from 35% to 21%. Due to the timing of our fiscal year relative to the effective date of the rate change, our U.S. corporate rate for 2018 resulted in a blended rate of 25.6%. Other impacts from the 2017 Tax Act consisted of tax expense of $142 for the estimated tax on deemed repatriation of unremitted earnings and $43 for the reduction in foreign tax credits and other immaterial items, largely offset by a tax benefit of $166 for the provisional remeasurement of certain deferred tax liabilities. In 2018, we also recognized net tax benefits of $76, which was largely driven by the adoption of an accounting standard related to stock-based compensation and other immaterial net benefits.


In 2018, Costco’s effective tax rate was 28.4 percent which was a slight decrease compared to the company’s effective rate of 32.8 percent in 2017 and 34.3 percent in 2016. The decline of Costco’s effective tax rate is due in large part to the TCJA. Costco’s annual report also mentions the idea of a blended corporate tax rate for 2018 due to the timing of the corporation’s
fiscal year and the timing of the tax rate alteration. Because of this, the “U.S. corporate rate for 2018 resulted in a blended rate of 25.6 percent”. On November 8, 2018, the Internal Revenue Service stated that “a corporation with a fiscal year that includes Jan. 1, 2018 will pay federal income tax using what is called a blended tax rate. They will not use the flat 21 percent tax rate for their entire fiscal year” (“After Tax Reform”).

The IRS came out with a three-step process for corporations to follow when calculating the company’s blended tax rate. The three steps are as follows:

1. First calculate their tax for the entire taxable year using the tax rate that were in effect prior to the Tax Cuts and Jobs Act.
2. Then calculate their tax using the new 21 percent rate.
3. Proportion each tax amount based on the number of days in the taxable year when the different rates were in effect.

It can be assumed that the blended rate of 25.6 percent contributed to Costco’s 4 percent drop in effective tax rate and that Costco should see another drop in 2019.

**Bonuses and benefits**

<table>
<thead>
<tr>
<th>LIABILITIES AND EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
</tr>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Accrued salaries and benefits</td>
</tr>
<tr>
<td>Accrued member rewards</td>
</tr>
<tr>
<td>Deferred membership fees</td>
</tr>
<tr>
<td>Other current liabilities</td>
</tr>
<tr>
<td>Total current liabilities</td>
</tr>
<tr>
<td><strong>LONG-TERM DEBT, excluding current portion</strong></td>
</tr>
<tr>
<td><strong>OTHER LIABILITIES</strong></td>
</tr>
<tr>
<td>Total liabilities</td>
</tr>
</tbody>
</table>

On Costco’s balance sheet, the corporation’s accrued salaries and benefits increased minimally between the years 2017 and 2018. The slight increase in accrued salaries and benefits is most likely because of Costco’s wage increases that were discussed previously. Accrued salaries and benefits are expected to rise in future years due to the increase in minimum wage for all Costco employees and more competitive benefits that are being offered. Costco executives previously stated that they would not be issuing one-time bonuses to their employees as other major retail companies were. Their 2018 Annual Report confirms that no bonuses were given, and tax savings were instead used to raise base wages. While the company does pay extremely well compared to other major companies in the retail industry, the slight increase in accrued salaries and benefits is not as large as expected.

**Wage increase**

Effective in June 2018, a portion of the savings generated from the Tax Cuts and Jobs Act (the “2017 Tax Act”) were used to increase wages for the majority of our U.S. hourly employees. The impact in fiscal 2018 was two basis points and the estimated annualized pre-tax cost of these increases is approximately $120.


In addition to investing $3 billion in capital expenditures during fiscal 2018 to expand our business in many ways, strong cash flows in fiscal 2018 allowed us to also declare dividends of $939 million and repurchase shares of $322 million. As well, income tax savings from the recent U.S. tax law changes provided funding to raise wages for most of our U.S. employees.


In early 2018, one of Costco’s first public statements on the TCJA was in relation to the corporation raising wages for their employees. The company stated that they would rather use their tax savings to focus on permanent wage increases across the board rather than issuing one-
time bonuses like other corporations were. In the company’s 2018 Annual Report, Costco explicitly acknowledges that a part of the tax savings from the tax reform were used to raise wages for most hourly workers to $22.50. The wage increase from the TCJA is also reflected in the liabilities section of Costco’s balance sheet. When evaluating the accrued salaries and benefits, it is clear that there was an increase from the year 2017 to 2018.

Share repurchases

**Cash Flows from Financing Activities**

Net cash used in financing activities totaled $1,281 in 2018, compared to $3,218 in 2017. The primary uses of cash in 2018 were related to dividend payments and repurchases of common stock. Net cash used in financing activities in 2017 primarily related to dividend payments, predominantly the special dividend paid in May 2017, and the repayments of debt totaling $2,200 representing the aggregate principal balances of the 5.5% and 1.125% Senior Notes.


In addition to investing $3 billion in capital expenditures during fiscal 2018 to expand our business in many ways, strong cash flows in fiscal 2018 allowed us to also declare dividends of $939 million and repurchase shares of $322 million. As well, income tax savings from the recent U.S. tax law changes provided funding to raise wages for most of our U.S. employees.


**Stock Repurchase Programs**

During 2018 and 2017, we repurchased 1,756,000 and 2,998,000 shares of common stock, at average prices of $183.13 and $157.87, totaling approximately $322 and $473, respectively. The remaining amount available to be purchased under our approved plan was $2,427 at the end of 2018. These amounts may differ from the stock repurchase balances in the accompanying consolidated statements of cash flows due to changes in unsettled stock repurchases at the end of each fiscal year. Purchases are made from time-to-time, as conditions warrant, in the open market or in block purchases and pursuant to plans under SEC Rule 10b5-1. Repurchased shares are retired, in accordance with the Washington Business Corporation Act.

Like Walmart, Costco has a stock repurchase program. When looking at the number of shares repurchased from 2016 to 2018, it is clear that stock buybacks have declined. However, it is important to note the average price per share has risen from the years 2016 to 2018. While Costco does not explicitly state where the funds to repurchase stock came from, it raises the question of if the company’s tax savings were used to make share repurchases during the year of 2018. Costco states that “strong cash flows in fiscal 2018 allowed us to also declare dividends of $939 million and repurchase shares of $322 million”. Costco is a highly profitable corporation, so strong cash flows is not a surprise. Evaluating share repurchase programs is becoming more important in part because of criticism of how corporations are redistributing their tax savings. Costco has not received as much criticism as Walmart over stock repurchases, but they will most likely have to evaluate how often the company repurchases shares as political sentiment shifts against this practice.
In Exelon’s 2018 Annual Report, the corporation addressed tax savings being passed on to customers in the section *Regulatory Implications of the Tax Cuts and Jobs Act (TCJA).* The corporation revealed that Exelon is in the process of having their tax savings plan being approved by state regulators. Exelon explicitly states that “the Utility Registrants have identified over $675 million in ongoing annual savings to be returned to customers related to TCJA for their distribution utility operation”. This statement from the annual report directly coincides with Exelon’s initial announcement of tax savings being distributed back to customers, as previously discussed in Chapter II of this study.
**Effective tax rate**

**Effective income tax rates** were (29.5)%, (94.6)% and 32.9% for the years ended December 31, 2018, 2017 and 2016, respectively. The increase is primarily related to impacts associated with the one-time remeasurement of deferred income taxes in 2017 as a result of the TCJA. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information of the change in the effective income tax rate.

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### For the Year Ended December 31, 2017 (in)

<table>
<thead>
<tr>
<th></th>
<th>Exelon</th>
<th>Generation</th>
<th>ComEd</th>
<th>PECO</th>
<th>BGE</th>
<th>PHI</th>
<th>Pepco</th>
<th>DPL</th>
<th>ACE</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Federal statutory rate</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
</tr>
</tbody>
</table>

**Increase (decrease) due to:**

- **State income taxes, net of Federal income tax benefit**: 2.3% 2.9% 5.7% 0.6% 5.4% 4.8% 3.2% 5.4% 5.6%
- **Qualified NDT fund income**: 3.8% 9.9% — — — — — — —
- **Amortization of investment tax credit, including deferred taxes on basis difference**: (0.9)% (2.1)% (0.2)% (0.1)% (0.1)% (0.2)% (0.1)% (0.2)% (0.4)%
- **Plant basis differences**: (1.7)% — 0.3% (13.8)% 0.1% 1.1% (0.4)% 2.0% 3.6%
- **Production tax credits and other credits**: (1.8)% (4.7)% — — — — — — —
- **Like-kind exchange**: (1.2)% — 1.3% — — — — — —
- **Merger expenses**: (3.6)% (1.2)% — — — (9.5)% (6.3)% (7.8)% (19.8)%
- **FitzPatrick bargain purchase gain**: (2.2)% (5.6)% — — — — — — —
- **Tax Cuts and Jobs Act of 2017 (ai)**: (33.1)% (128.3)% 0.1% (2.3)% 0.9% 6.4% 2.7% 2.5% 1.6%
- **Other**: 0.1% (0.5)% 0.2% (0.1)% 0.2% (0.1)% (0.2)% 0.1% (0.4)%

**Effective income tax rate**: (3.3)% (94.6)% 42.4% 19.3% 41.5% 37.5% 33.9% 37.0% 25.2%

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### For the Year Ended December 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>Exelon</th>
<th>Generation</th>
<th>ComEd</th>
<th>PECO</th>
<th>BGE</th>
<th>PHI</th>
<th>Pepco</th>
<th>DPL</th>
<th>ACE</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Federal statutory rate</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
<td>21.0%</td>
</tr>
</tbody>
</table>

**Increase (decrease) due to:**

- **State income taxes, net of Federal income tax benefit**: 0.6% (16.6)% 8.3% (2.6)% 6.6% 3.0% 2.2% 6.7% 7.4%
- **Qualified NDT fund income**: (1.9)% (11.8)% — — — — — — —
- **Amortization of investment tax credit, including deferred taxes on basis difference**: (1.2)% (6.5)% (0.2)% (0.1)% (0.1)% (0.2)% (0.1)% (0.3)% (0.4)%
- **Plant basis differences**: (3.5)% — (0.2)% (14.1)% (1.3)% (1.6)% (2.7)% (0.3)% (0.5)%
- **Production tax credits and other credits**: (2.2)% (13.5)% — — — — — — —
- **Noncontrolling interests**: (1.0)% (6.1)% — — — — — — —
- **Excess deferred tax amortization**: (8.3)% — (9.1)% (3.2)% (8.0)% (14.5)% (14.8)% (12.0)% (14.9)%
- **Tax Cuts and Jobs Act of 2017**: 0.9% 2.7% (0.1)% — — 0.1% — — —
- **Other**: 1.0 1.3 0.5 0.3 0.9 0.3 0.2 0.4 1.2

**Effective income tax rate**: 5.4% (29.5)% 20.2% 1.3% 19.1% 8.1% 5.8% 15.5% 13.8%
With regard to effective tax rate, Exelon presented the corporation’s break down of the parent company as well as the six subsidiaries for both years ended December 31, 2017 and December 31, 2018. When comparing both years, it is apparent that the effective income tax rate seems to have fluctuated throughout the corporation. Exelon addresses this discrepancy in the Effective Income Tax Rates section by indicating that the adjustment is “primarily related to impacts associated with the one-time remeasurement of deferred income taxes in 2017 as a result of the TCJA”. As noted before, corporations have had to make adjustments within their effective tax rates to account for how deferred taxes should be reflected in the company’s financial statements. This would be the explanation for Exelon’s one-time remeasurement of deferred income taxes. When calculating the effective tax rate for both 2017 and 2018, Exelon demonstrates how the TCJA had an impact on the effective tax rate each year.

Customer price adjustment

"Customers are reaping the benefits of historic commodity prices and BGE's innovative and effective efficiency programs. Customers have greater control over the cost of their electric service through managing their energy use, which lowers their bills and helps us meet our efficiency goals," said Rodney Odiooye, vice president and chief customer officer for BGE. "Our customers are also experiencing the most reliable energy grid in our history. We've invested heavily in equipment upgrades and maintenance to better serve our customers with quality electric power and safe, reliable natural gas and it's paying off."

“Reports & SEC Filings.” Exelon Corporation, 8 Feb. 2019

Ten years ago, as new rates took effect in September 2008, the average residential customer bill was approximately $85; in January 2019, it will be approximately $84. Adjusted for inflation, ComEd's average residential bill has declined about 14 percent over that period. ComEd's per kilowatt-hour residential rates trend below the average across the entire U.S., including 11 percent below rates in the top 20 and 17 percent below the top 10 U.S. cities by population as of June 2018.

“Reports & SEC Filings.” Exelon Corporation, 8 Feb. 2019
As noted previously, BGE and ComEd were two of Exelon’s most proactive subsidiaries when it came to giving tax savings back to customers. Both subsidiaries communicated with the public about the impact tax reform would have on customer bills. Tax savings are being put towards not only lowering customer prices, but also improving the technology of electric house meters and creating a sustainable power grid. These apparent upgrades from the tax reform savings will allow the corporation to update infrastructure and gradually reduce customer prices for years to come. Over the past ten years, ComEd has reduced energy rates by 14 percent when adjusted for inflation. It seems that companies in the utilities sector are more focused on returning savings back to customers, rather than putting an emphasis on share buybacks. As discussed previously, this is in part because of how this sector is structured as monopolies. Utility companies play an important role in the future development society and in order to grow as a company they need to be socially and environmentally responsible.
Xcel Energy

TCJA disclosure

**Impact of the TCJA** — Due to the enactment of the TCJA in December 2017, Xcel Energy recognized an estimated one-time, non-cash, income tax expense of approximately $23 million in the fourth quarter of 2017 for net excess deferred tax assets which may not be recovered from customers or not attributable to regulated operations, increased valuation allowances, etc. Given the non-recurring nature of the TCJA’s broad and sweeping reform of the IRC, the income tax expense associated with the TCJA enactment has been excluded from Xcel Energy’s 2017 ongoing earnings.

<table>
<thead>
<tr>
<th>(Millions of Dollars)</th>
<th>Three Months Ended Dec. 31</th>
<th>Twelve Months Ended Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>GAAP earnings</td>
<td>$215</td>
<td>$189</td>
</tr>
<tr>
<td>Estimated impact of TCJA</td>
<td>$23</td>
<td>$23</td>
</tr>
<tr>
<td>Ongoing earnings</td>
<td>$215</td>
<td>$212</td>
</tr>
</tbody>
</table>

Like most companies, Xcel Energy experienced a temporary impact on their financial statements for the years 2017 and 2018. Xcel Energy recognized a $23 million one-time change in deferred taxes. It is important for Xcel Energy to give a clear disclosure of the TCJA impact on the company’s ongoing earnings so shareholders and financial statement users remained informed. This one-time change of $23 million may not be recovered, so it is important to disclose this in order to prevent shareholders misunderstanding the company’s financials. Xcel Energy excluded the TCJA from their 2018 ongoing earnings because of the comprehensive changes to the IRC.
Xcel Energy’s effective income tax rate calculation gives a description of how the company began with 21 percent as the corporate tax rate for 2018, and generated an effective income tax rate of (2.9) percent. It is shown that the tax reform only effected 2017 when calculating the year’s effective income tax rate. This is because the TCJA was enacted on December 22, 2017 and Xcel Energy made adjustments to the company’s financial statements before issuing the 2017 Annual Report. Giving a side by side comparison of 2017 to 2018 illustrates the overwhelmingly positive effect the TCJA had on Excel Energy’s effective tax rate. The effective tax rate went from 38.4 percent in 2017 to (2.9) percent in 2018. Like Exelon, it can be assumed that a majority of the tax savings will be passed on to customers.
Customer price adjustment

**Electric Margin** — Electric revenues and fuel and purchased power expenses are impacted by fluctuations in the price of natural gas, coal and uranium used in the generation of electricity. However, these price fluctuations have minimal impact on electric margin due to fuel recovery mechanisms that recover fuel expenses. Electric margin was reduced by approximately $105 million in 2018 and $130 million in 2017 for PTCs (grossed up for federal income tax) which were returned to customers. Margin reductions for PTCs are largely offset by income tax benefits.

“SEC Filings & Other Documents.” Xcel Energy, 2019

<table>
<thead>
<tr>
<th>(Millions of Dollars)</th>
<th>Three Months Ended Dec. 31</th>
<th>Twelve Months Ended Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Electric revenues before TCJA impact</td>
<td>$ 2,382</td>
<td>$ 2,256</td>
</tr>
<tr>
<td>Electric fuel and purchased power before TCJA impact</td>
<td>(951)</td>
<td>(906)</td>
</tr>
<tr>
<td>Electric margin before TCJA impact</td>
<td>$ 1,431</td>
<td>$ 1,350</td>
</tr>
<tr>
<td>TCJA impact (offset as a reduction in income tax)</td>
<td>(78)</td>
<td>—</td>
</tr>
<tr>
<td>Electric margin</td>
<td>$ 1,353</td>
<td>$ 1,350</td>
</tr>
</tbody>
</table>

“The following details the electric revenues and margin before and after the impact of the TCJA:”

“SEC Filings & Other Documents.” Xcel Energy, 2019

Xcel Energy displays how the TCJA effected the company’s electric revenues before and after the enactment of the tax reform. Since the electric margin was reduced by $105 million in 2018, the corporation was able to give these savings back to customers. Savings were given back in the form of lower rates on monthly electric bills. In Xcel Energy’s 2018 Annual Report, the corporation indicated the TCJA had a $78 million impact on electric margin due to an offset as a reduction in income tax. While it was not explicitly stated, it can be assumed that some of this $78 million will be passed onto customers as well.
Chapter IV
Conclusion

The TCJA has given both the retail and utilities sectors more financial flexibility than they would have had under previous tax law. They now have the option to give a substantial portion of their tax savings back to their own employees and consumers. Corporations have the opportunity to allow employees to retain wages in their paychecks, reinvest in each company, and offer either increased wages or bonus to employees of each respected sector (“Impact of Tax Cuts”, 2018).

Walmart and Costco are two corporations that have been prominent in the retail sector for decades. They are both in the top end of retail corporations in terms of earnings, but their business models vary. Because of this, they served as good tools for analyzing the TCJA’s impact on the retail industry. Both corporations were vocal about how beneficial the TCJA would be for the retail sector. Even though they were both vocal proponents of the tax reform, they utilized their tax savings in different ways. Walmart focused more on share repurchases and boosting employee earnings primarily through one-time bonuses. Costco took a different approach and focused more on raising hourly wages and reinvesting in their employees for the long term. These different approaches do not take away from the fact that the TCJA benefited both corporations. A lower tax burden will allow these corporations financial flexibility in the future that they would not have received under previous tax law.

The utilities industry is unique in their approach to the TCJA. As was discussed earlier, most publicly-held companies are using their tax savings to reinvest within their company and return more profits to shareholders. It is interesting to note that due to the nature of the utilities industry, these corporations are focused less on improving their bottom line and more on returning some of their tax savings to their customers. Exelon and Xcel Energy utilized tax
savings from the TCJA to give customers a reduction on consumer bills each month. The tax savings distributed to customers correlates well with the tax reform’s initial purpose of boosting economic growth and putting more money into consumer pockets. While one might question why both Exelon and Xcel Energy have not announced a pay increase for employees, it is important to realize that because of the company’s monopolistic nature, they have just as much responsibility to their customers as they do to their employees.

This study is an early analysis of the TCJA and how these sectors are distributing their tax savings. The TCJA was enacted in 2018 and corporations are still adapting to the new tax law. One of the main goals with the tax reform was to boost employee wages and create better job opportunities for Americans. Cutting corporate tax rates across the board was meant to incentivize these companies to pass some of this newfound wealth back to their employees. One of the difficulties with tax law is that the government cannot dictate what corporations do with the savings that result from tax cuts. Throughout this analysis, it was seen that corporations are acting in accordance with some of the main objectives outlined by the TCJA. Corporate culture and the resulting values go a long way in determining if these companies will return all tax savings to executives and shareholders, or will return savings to employees as the TCJA intended. As mentioned before, it is still too early to judge the TCJA and further analysis on corporations in future years will be necessary in order to determine the effectiveness of the Trump administration’s tax reform.


Appendix

Figure 1: S Corp and C Corp Differences

<table>
<thead>
<tr>
<th>S Corp</th>
<th>C Corp</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TAXES</strong></td>
<td><strong>C ORP</strong></td>
</tr>
<tr>
<td>Pass-through entity— this means income tax isn’t paid by the corporation, but rather is “passed through” to the owners to be paid on the owner’s personal tax return.</td>
<td>Taxed as a separate entity. C corps file a corporate tax return and pay all taxes at the corporate level.</td>
</tr>
<tr>
<td><strong>OWNERSHIP</strong></td>
<td><strong>C ORP</strong></td>
</tr>
<tr>
<td>No more than 100 shareholders. All shareholders must be US citizens or residents.</td>
<td>No restrictions (unlimited shareholders)</td>
</tr>
<tr>
<td><strong>SHAREHOLDERS</strong></td>
<td><strong>C ORP</strong></td>
</tr>
<tr>
<td>Can only have one class of stock, meaning all shareholders have equal rights.</td>
<td>Can have multiple stock classes, meaning shareholders can be placed on a hierarchy.</td>
</tr>
</tbody>
</table>

Figure 2: New Corporate Tax Rate Compared to Other Countries

Figure 3: Exelon Subsidiaries tax savings break down

Exelon utilities continue to put customers first, passing along over $525 million in savings to 10 million utility customers across five states and the District of Columbia as a result of the new federal tax law.

**ComEd**

The Illinois Commerce Commission (ICC) approved ComEd’s petition seeking approval to pass along approximately **$200 MILLION** in annual tax savings to its customers.

ComEd residential customers can expect to see an estimated **$2-$3 DECREASE** on the monthly bill.

**BGE**

The Maryland Public Service Commission accepted BGE’s proposal to provide approximately **$103 MILLION** in annual tax savings to its customers.

The average BGE residential electric customer will receive an estimated **$2.91 DECREASE** on the monthly bill.

The average residential combined natural gas and electric customer will receive an estimated **$5.41 REDUCTION**

**Atlantic City Electric**

**$23 MILLION** in annual tax savings to its customers.

**$91 MILLION** in annual tax savings to its customers.

**Pepco**

Pepco has filed a request with the Public Service Commission of the District of Columbia and the Maryland Public Service Commission (PSC) to provide approximately **$70 MILLION** in annual tax savings to its customers.

If approved by the Commissions in the District of Columbia and Maryland, the average Pepco residential electric customer will see a **$2.32 DECREASE** (DC) **$2.92 DECREASE** (MD) on the monthly bill.

**Delmarva Power**

Delmarva Power has filed plans with the Maryland Public Service Commission (PSC) and the Delaware Public Service Commission (DPSC) to pass along **$39 MILLION** in annual tax savings to its customers.

If approved by the Commissions, the average Delmarva Power residential customer in Maryland and Delaware will see a **$3.82 DECREASE** (MD) **$2.99 DECREASE** (DE-ELECTRIC) **$4.77 DECREASE** (DE-GAS) on the monthly bill.

“Exelon Utilities Passing Along Tax Cut Savings to Customers.” The Grid, Exelon Corporation, 3 Apr. 2018