



An Unusual Tax Benefit Is Today's Filing Season Find

For March 7, our forensic accounting needle in a haystack comes from an investment bank with a non-recurring tax benefit.

Get the best fundamental research

Analyst Peter Apockotos found an unusual item in Goldman Sachs' (GS) 2018 10-K.

On [page 46](#), GS discloses that it recorded a \$487 million (5% of GAAP net income) tax benefit related to the Tax Cuts and Jobs Act in 2018. This benefit reverses a small portion of the [\\$4.4 billion](#) tax expense GS recorded due to the tax law in 2017.

After the tax law was passed, we wrote that many companies would face a significant one-time impact (both [positive](#) and [negative](#)) on their 2017 earnings. However, because the tax law passed so late in the year, most companies did not have time to fully account for its impact and recorded a "provisional" benefit/expense. Now, more than a year later, the tax law is still distorting the income statement for many companies.

GS grew GAAP net income by 168% in 2018 in large part due to the new tax law understating 2017 profits and overstating 2018 profits. After adjusting for the tax impact and other noise in reported earnings, we show that net operating profit after tax ([NOPAT](#)) grew by just 16%. Accordingly, you can see how accounting for unusual items in the footnotes is crucial to understanding the true profitability of a company.

The Power of the Robo-Analyst

We analyzed 29 10-K filings yesterday, from which our [Robo-Analyst](#)¹ technology collected 2,178 data points. Our analyst team used this data to make 491 forensic accounting [adjustments](#) with a dollar value of \$137 billion. The adjustments were applied as follows:

- 223 income statement adjustments with a total value of \$17 billion
- 189 balance sheet adjustments with a total value of \$67 billion
- 79 valuation adjustments with a total value of \$53 billion

We believe this research is necessary to fulfill the [Fiduciary Duty of Care](#). Ernst & Young's white paper, "[Getting ROIC Right](#)", demonstrates how these adjustments contribute to meaningfully superior models and metrics.

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Disclosure: David Trainer, Peter Apockotos, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

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¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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