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Headline: Tax Policy and Investment in a Global Economy

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Tweet: Firms that benefited from the corporate tax cuts in the 2017 Tax Cuts and Jobs Act responded with increased investment relative to firms that were not impacted, according to @gchodorowreich @omzidar Eric Zwick and Matthew Smith.

Summary: This paper combines administrative tax data and a model of global investment behavior to evaluate the investment and firm valuation effects of the Tax Cuts and Jobs Act (TCJA) of 2017. We have five main findings. First, the TCJA caused domestic investment of firms with the mean tax change to increase by roughly 20% relative to firms experiencing no tax change. Second, the TCJA created large incentives for some U.S. multinationals to increase foreign capital, which rose substantially following the law change. Third, domestic investment also increases in response to foreign incentives, indicating complementarity between domestic and foreign capital in production. Fourth, the general equilibrium long-run effects of the TCJA on the domestic and total capital of U.S. firms are around 6% and 9%, respectively. Finally, in our model, the dynamic labor and corporate tax revenue feedback in the first 10 years is less than 2% of baseline corporate revenue, as investment growth causes both higher labor tax revenues from wage growth and offsetting corporate revenue declines from more depreciation deductions. Consequently, the fall in total corporate tax revenue from the tax cut is close to the static effect. Related: Who Gains from Corporate Tax Cuts? and End of an Era: The Coming Long-Run Slowdown in Corporate Profit Growth and Stock Returns and Is the Tax Cut Paying For Itself? By a Mile

Primary Topic: Taxation

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