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Macro Roundup Artcile

Headline: Who Gains from Corporate Tax Cuts?

Article Link: https://www.nber.org/papers/w31278

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Tweet: Based on an analysis of U.S. federal tax changes between 1950 and 2006, goods-producing firms respond to tax cuts by expanding capex and employment while service firms largely used any tax windfall to increase dividend payouts. @NBERpubs

Summary: Our main finding is that corporate tax cuts generate a significant boost in investment and employment for the economy overall, but the benefits are spread unevenly across sectors and groups. In particular, goods producing companies —such as manufacturing firms— expand both capital expenditure and wage bills following a cut in corporate taxes, but do not alter dividend payments. The left column [of Figure 1] shows that a 1% cut in the marginal tax rate stimulates an increase in capital expenditure for goods producing firms peaking at 8% and 5% in year two following a cut in the marginal tax rate and an increase in the investment tax credit. In contrast, firms in the service sector—which are far less capital-intensive—do not increase investment or employment at all but use most of their windfall to pay dividends. In short, we find important differences in the effect on workers vs. shareholders across sectors of the economy.

Primary Topic: Taxation

Topics: Academic paper, Fiscal Policy, Taxation, Weekly

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