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Macro Roundup Article

Headline: Lessons from the Biggest Business Tax Cut in US History

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Tweet: .@gchodorowreich @omzidar and Eric Zwich conclude that the 2017 Tax Cuts and Jobs Act raised tangible corporate investment by about 11%, but long-run GDP by less than 1% while reducing corporate tax revenue by 40%.

Summary: We assess the business provisions of the 2017 Tax Cuts and Jobs Act, the biggest corporate tax cut in US history, [building] on empirical work since the passage of the 2017 legislation. We describe not only partial equilibrium results, but also aggregate effects on investment, tax revenue, and GDP, [focusing] on domestic effects. Corporate tax revenue fell by 40% due to the lower rate and more generous expensing [of investment]. In aggregate, we suggest a loose consensus from the literature [based on three different methodologies],that total tangible corporate investment increased by 11%. Firms with larger declines in their effective tax wedge increased investment relatively more. The business tax provisions increased economic growth and wages by less than advertised by the Act's proponents, with long-run GDP higher by less than 1% and labor income by less than $1,000 per employee. Some of the expired and expiring provisions, such as accelerated depreciation, generate more investment per dollar of tax revenue than others. By contrast, the tax cuts to pass-through firms look quite unattractive: they are especially expensive in terms of how much investment they encourage.

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Primary Topic: Taxation

Topics: Academic paper, Database, Fiscal Policy, GDP, Growth, Important!, Investment, Productivity, Taxation, Weekly

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