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ECN-375 Corporate Finance

5/16/2024

Observing the Effects of TCJA of 2017 on Shareholder Payouts

Abstract: Within the paper I utilize the TCJA thin-capitalization rate (TCR) restrictions to construct estimates of the effect of the TCJA of 2017 on shareholder payouts amongst United States corporations. I compare differences between firms impacted by the removal of the 'safe harbor' and tightening of net interest deductions - via a Differences-in-Differences approach - to establish a general impact of the TCR restrictions on methods of shareholder payouts. My results are statistically significant, but primarily inconclusive; however, my results agree with economic intuition and related literature.

JEL G32, G34, G35

1. Introduction

On December 22nd, 2017, President Donald Trump signed the Tax Cuts and Jobs Act of 2017, which included modifications to the tax rate for individuals, investors, and corporations. The goal of TCJA was to reduce corporate and individual tax rates with the hope of stimulating the economy via economic growth and an increase in corporate investment. Amongst the multitude of changes made via the TCJA, the primary focus will be on the tightening of net interest deductions. This eliminated the ‘safe harbor’ clause that was enacted when corporates held a debt-to-equity ratio of 1.5 and below. Furthermore, the policy reduced the interest deduction cap from a whopping 50% down to 30%. Within the paper, we focus on the primary impact of thin-capitalization rates on shareholder payouts to better gauge the effectiveness of the TCJA on shareholders and shareholder wealth.

Within this paper, I seek to answer the following question: how does the TCJA – more specifically, the thin capitalization rate changes – impact shareholder payouts in US companies? My paper notes that the TCJA’s effects are unique and dependent on the firm, and that the TCJA has both positively and negatively impacted corporations. To measure the impact of the TCJA on shareholder payouts, I must ensure that the policy change is unanticipated. I will do this through parallel trends, ensuring that both affected and unaffected firms’ methods of shareholder payouts would be identical prior to the implementation, and that both affected and unaffected firms’ method of shareholder payouts would trend similarly in the absence of the TCJA policy. Furthermore, I will account for heterogeneity and utilize robustness checks by including industry-by-year, firm, return-on-assets-by-year, and debt-ratio-by-year fixed effects. Contrary to economic intuition but in line with related literature, I find a statistically significant increase in shareholder payouts in the form of share repurchases and dividends via the TCJA’s thin

capitalization rate policy during my initial analysis. Removing larger firms with more than \$500 million in gross receipts, however, results in a statistically significant decrease in both dividends and shareholder payouts. Hence, my findings are inconclusive.

The paper will be laid out as follows. Section 2 will discuss literature review, in which I will introduce the specific TCJA policy I observe – thin capitalization rate – and then proceed to comment on previous literature and their observations on TCJA’s impact on corporate financing, as well as its impact on shareholder payouts. Section 3 details the policy background which I will use to explain the intentions of the paper in tandem with the policy’s purpose. Section 4 describes the data I use to estimate how firms change shareholder payout amounts/decisions when faced with the impacts of TCJA. Section 5 explains my empirical methodology. Section 6 presents my main results. Finally, Section 7 concludes the paper.

2. Literature Review

Within this paper, I aim to observe the impacts of TCJA’s restrictions on the thin-capitalization rate on shareholder payout methods. Büttner et al (2008) observes the impact of TCR restrictions on capital structure via the changes within debt financing. They find that TCR is effective in significantly reducing the amount of debt financing a company will take on. Thus, I should find that equity financing will likely increase proportionally to debt financing, thereby increasing the amount of equity issuance. This provides support for TCJA’s ‘safe harbor’ removal resulting in a decrease in debt issuance and an increase in equity issuance (be it proportionally via the capital structure or through new issuance). Observing the impacts of the TCJA on capital structure, I find that Carrizosa et al (2022) finds a similar result. Via the Differences-in-Differences (DID) design, they determine the impacts of TCJA on capital structure. They find that there is a decrease in long-term debt, and a decline in new debt issuances, which would

indicate a proportional increase in equity financing. They also find that firms that were not directly impacted by the TCJA interest deduction (but were lined up to in the future) reduced their debt leverage by about $\frac{1}{2}$ of what firms directly impacted did. Both papers support my research question and initial hypothesis.

Since I am observing the impacts of TCJA on shareholder payouts, it is important to review previous literature and their observed effects of TCJA on payout methods. Albuquerque et al (2019) details the impacts of the TCJA on corporate payout policies via share repurchases and dividends. They find that repurchases were concentrated in firms with strong corporate governance, low financial constraints, or those that are likely to over-invest. The specification of low financial constraints is in line with my defined treatment group, in which gross receipts must be greater than \$25 million for the corporation to be fully impacted by the TCR restriction. A larger company typically has fewer financial constraints, and hence would be more likely to have share repurchases. Furthermore, Albuquerque finds that share repurchases are greater in firms where equity incentives are weaker. Similarly, Boschert et al (2019) details the effects of the TCJA via dividend payments. Since my paper is focused on the impact of TCJA on shareholder payouts – and dividends are a form of shareholder payouts – Boschert's paper is much like Albuquerque et al regarding my paper's intention. They find that tax liabilities were dependent on whether the dividend income was derived from a foreign source or a domestic (U.S.) source. In the end, the distinguishing factor would be that the U.S. sourced dividend income would be more difficult to determine its tax liability due to the change from a variable to flat tax rate. Boschert expects that the taxpayers within the highest tax bracket would benefit more than the other taxpayers/shareholders, and hence provides insights on whether a financial manager would consider what's best for their shareholders when considering shareholder payment

methodologies. Similarly, Kalcheva et al (2020) which details the impacts of TCJA on shareholders via payout methods. They find that the TCJA's benefits were passed to shareholders through an increase in repurchases (and hence payouts), which confirms the market anticipation, but does not increase corporate investments. They find that shareholders of firms with high previous payouts and non-financially constrained firms (low-growth firms) benefit the most from the TCJA via interest deduction. It appears that interest deductibility is important, and thus future literature review/research will delve deeper into the TCJA's policy on interest deductibility. These papers further support my research question, allowing us to work under the assumption that an increase in equity incentives will result in firms becoming more reliant on retained earnings, hence expecting a decrease in shareholder payouts.

Within the papers, I find supporting evidence for my research question. Although research by Buttner et al (2008) conducts is a decade earlier than the TCJA, it provides grounding evidence that tightening restrictions on TCRs will inevitably lead to an increase in equity financing. Buttner's results work in tandem with Carrizosa et al (2022), who perform a DiD analysis and find that there is a decrease in long-term debt alongside declines in debt issuances due to the TCJA, which indicates that equity financing increases relative to debt financing within the capital structure. Boschert asserts the idea of TCJA impacting taxpayers/shareholders through dividends, but also finds conflicting ideas on who U.S. income-sourced dividends would benefit – they assume this to be dependent on the tax bracket a shareholder is in, benefiting the highest tax bracket due to the change to a flat rate. This leads to Albuquerque et al (2019), which demonstrates that repurchases are more common within firms with strong corporate governance and low financial constraints; since these are typically larger companies, I should find an insurgence of repurchases within my treatment variable. Within my paper, I operate under the

assumption of certain industry restrictions to be within the treatment group as well as that a firm's gross receipts must be greater than \$25 million to be fully impacted by the TCJA TCR restriction. Albuquerque is much like Kalcheva et al (2020), who find that TCJA's benefits would be passed on to shareholders via an increase in repurchases and inquire about the impact of the full tax overhaul within TCJA on capital structure. In a cyclical manner, this is proven within Buttner and Carrizosa. My next step would be to find papers supporting TCR restrictions – whether it's through the TCJA or another policy – directly increasing the equity financing rather than a mere proportional increase. This would further support my findings of retained earnings, and thus a reduction in shareholder payouts.

While there are several papers discussing the impacts of the 2017 TCJA on payout policies and TCR tightening on capital structure (via debt and equity financing), my paper focuses on the impacts of TCR within the TCJA on shareholder payouts. By observing multiple payout methods, I can better observe the impacts of a tightening thin capitalization rate on corporation's payout decisions – such as equity issuance, debt issuance, dividends and share repurchases. Within my paper I begin by confirming the effect of TCR restrictions on equity issuance and debt issuance (a firm's capital structure) followed by observing the effect of the TCJA on several payout methods. Former literature observes the impact of TCR on equity issuance and equity issuance on shareholder payouts, but not the effect TCR restrictions on firm payouts. By utilizing a Differences-in-Differences analysis, I perform under the assumption that in the absence of the TCJA thin-cap rate policy, shareholder payouts in firms that were affected would have performed similarly to shareholder payouts in firms that were unaffected. I account for this via pre-trend controls, hence allowing for unaffected firms to be a good control group for impacted firms.

3. Policy Background

The Tax Cuts and Jobs Act of 2017 (“TCJA”) was enacted on December 22nd, 2017. It was signed into law by President Donald J. Trump with the intention of simplifying certain tax codes and stimulating economic growth via tax cuts for businesses, corporations, and firms. Individual tax reductions should increase household income and businesses’ investments, thereby stimulating the economy. Due to the multi-faceted nature of the TCJA, the policy has been utilized the impacts of several policies such as corporate tax rates, domestic and foreign direct investments, capital structure, and more.

Prior to the TCJA, thin capitalization rates (TCR) were quite limited, primarily applying to multinational corporations containing debt within the United States. TCJA altered this minute policy by eliminating ‘safe harbor’ for those with debt-to-equity ratios at 1.5 to 1 and below; additionally, they lowered the interest deduction cap from 50% to 30% (Gravelle, 2020). As a result, equity financing becomes increasingly more attractive compared to debt financing through the reduced interest deductibility of debt financing. They also allow unused interest deductions to be carried over indefinitely. This is the primary policy change I aim to observe. By the beginning of 2022, the TCJA modified the income measure of interest deductions from EBITDA (income before interest and taxes excluding depreciation and amortization) to EBIT (income before interest and taxes) (Watson, 2022). As such, I will only observe the impacts of the policy within the dates ranging from Q1 2018 to Q4 2021 to avoid alteration of the policy.

Observing the impacts of TCR changes on payouts and financing issuance through the TCJA of 2017 allows me to examine how corporations and financial managers adjust financing and

payout strategies in response to a policy with an aim to spur economic growth. By doing so, I can determine whether these TCR changes achieved the desired result of stimulating the economy through payout methodologies.

Other important tax cuts via the TCJA occurred simultaneously in 2017. First, the corporate tax rate was reduced from 35% to 21%, thereby incentivizing business investment. Furthermore, TCJA introduced the base erosion and anti-abuse tax (BEAT), which implemented a tax on deductible payments to foreign affiliates, which reduced the number of foreign payments made by corporations, thereby incentivizing companies to maintain cash flows within the US. Finally, the TCJA also created a modified territorial tax system which exempted dividend taxes from corporations' foreign counterparts in which they were invested at least 10% (Tax Policy Center, n.d.). Finally, COVID-19 occurred nearing the beginning of 2020 up until the end of my latest observation – Q4 2021. Because I aim to only observe the impacts of the TCR interest deduction changes, I will need to control for these policies and economic events within my empirical methodology.

There were several companies that were unaffected by the TCR changes due to exemptions. Businesses with less than \$25 million in gross receipts (averaged over the last 3 years prior) were exempt; additionally, real estate, agricultural/farm, and vehicular/automotive businesses were found exempt in various aspects of their interest deductions due to the longevity of their depreciation. As such, I will remove these from the 'treated' sample and utilize them alongside other corporations within the control group.

4. Data

I collected annual unbalanced pooled data via Compustat from 2014 to 2021. The data originally included 2013; however, there were an inadequate amount of observations to be considered (one tenth of other fiscal years), and hence 2013 was removed from my dataset. This data contains around 44,000 observations of firms. Within the dataset I aim to separate treated and control groups based on the criterium that matches full qualification of the TCR restrictions. The Compustat variables I focus on are GVKEY (firm ID), CONM (company name), FYEAR (fiscal year), NAICS (industry code), DVT (total dividends), TSTK (share repurchases > 0), REVT (gross receipts), AT (total assets), LT (total liabilities), and NI (net income). Below is Table 1, which details the summary statistics of the variables listed.

Table 1: Summary Statistics

	Mean Control	Mean Treated	Diff	SE	Obs
Total Dividends	119.2	9.248	110.0***	(8.751)	5490
Share repurchases	452.6	13.91	438.7***	(43.73)	5524
Gross receipts	4096.9	169.3	3927.6***	(386.4)	5553
Total Liabilities	10844.6	845.6	9999.0***	(2242.6)	5570
Net Income	288.3	-2.403	290.7***	(38.91)	5547
Total Assets	13481.6	1073.7	12407.9***	(2420.9)	5581

Notes: This details the summary statistics of the variables utilized within my paper. The dependent variables are not logged. The data is derived from the 2016 fiscal year. The divider separates dependent and independent/control variables, respectively.

I observe a statistically significant difference between both treated and controls amongst all variables. Due to the statistical significance of the differences between both treatment and control groups, these variables will serve as suitable controls to ensure my results are robust and

pass heterogeneity concerns. Utilizing the variables below, I create several control variables which are defined as follows:

- Firm FE: controlling for firm fixed effects via GVKEY code
- Industry by Year: interacting industry (via NAICS 4-digit code) by year
- Debt Ratio by Year: interacting debt ratio (total liabilities / total assets) by year
- ROA by Year: interacting return on assets (net income / total assets) by year

I winsorize all continuous and control variables at the 1st and 99th percentile. Next, I will continue with the empirical methodology section.

5. Empirical Methodology

I will utilize two models within the paper, both of which are Difference-in-Difference models. I begin with direct intuition to view impacts of the TCR change via interest deductions on capital structure – primarily debt and equity issuance – and continue to observe the impacts of payouts on corporations impacted by the TCR change.

TCR Policy Variables

Throughout all models, I will change the dependent variable throughout but maintain the same independent variables. Hence, I will explain those first along with providing the first Difference-in-Difference model.

$$(1) D_{i,f,t} = \alpha + \beta_1 [Treat_f * Post_t] + \beta_2 [Controls_{f,t}] + \mu_f + \sigma_t + \epsilon_{f,t}$$

The regression is estimated on annual data in the 8-year period between 2014:Q1 and 2021:Q4. The annotations of i, f , and t refer to industry firm and time (in years), respectively. D refers to the total dividends issued from firms in each year. $Treat$ is a dummy that takes the value of 1 if the firm is fully impacted by the interest deduction, which is derived as follows:

- Firm's gross receipts are greater than \$25 million (averaged over three prior years), and
- The firm is not within the real estate, agricultural, or vehicular/automotive industry.

I remove several industries by manipulating substring NAICS codes; these industries are removed due to the longevity of their depreciation periods, allowing them to bypass the tightened TCR restriction. *Post* is a dummy that takes the value of 1 if the year is 2018 or later; since the policy was enacted in late December of 2017, utilizing 2018 as the baseline year allows firms and financial managers to make fully educated decisions – the policy also appears to be a sudden enactment on the US corporations, and thus I assume that there is no expectation of such a policy prior to 2018:Q1; I can verify this via event study analyses. By interacting both *Treat* and *Post* I obtain β_1 , which is the difference-in-differences estimate describing how total dividends in affected firms perform relative to unaffected firms when the Tax Cut Job Act policy is turned on. I incorporate *Controls*, which is a flexible vector of a firm-level control variable. Controls include firm fixed effects, year fixed effects, industry-by-year fixed effects, debt ratio-by-year fixed effects, and return on assets-by-year fixed effects. As I incorporate the interaction-by-year fixed effects I remove the year fixed effects to avoid potential oversaturation or downward bias on my estimates. These (apart from the definition of *D*) are represented within both models. The expectation would be that β_1 has a negative coefficient due to the increased incentivization of equity with the removal of the safe harbor for corporations with a debt-to-equity ratio of 1.5 or lower.

$$(2) S_{i,f,t} = \alpha + \beta_1 [\mathbf{Treat}_f * \mathbf{Post}_t] + \beta_2 [\mathbf{Controls}_{f,t}] + \mu_f + \sigma_t + \epsilon_{f,t}$$

This model is identical to the original apart from *D*, which is no longer within the equation. *S* is defined as share repurchases from firms in each year. Similar to Equation 1, I should see share repurchases decrease because of the interest deduction. This is due to the same reason that

Equation 1 has expected a negative coefficient. Capital structure should change to have more equity issuance as safe harbor has been removed. Due to an increase in equity issuance, there is thus an increase in equity financing, and thus financial managers will be incentivized to retain their earnings; hence, I should expect a decrease in shareholder payouts over time.

Both the control and treatment groups issue debt and equity in a procyclical manner, but the treatment group should be encouraged to issue extra equity by the TCR interest deduction, whereas the control group should not be impacted whatsoever. Therefore, I can operate under the identifying assumption that the two groups would have experienced parallel trends were it not for the TCJA interest deduction from 50% to 30%. I must maintain the parallel trend assumption, which states that in the absence of the TCJA interest deduction the payouts, shareholder payouts that were affected would have performed like the shareholder payouts of firms that were unaffected. Unaffected firms – whether it be via exemption or failure to qualify – are hence a good control group for affected firms. I must observe pre and post-trend tests while controlling for other time-varying policies. I will prove this within the results section.

To address concerns related to other policies (internal and external to TCJA of 2017) impacting my results – such as the corporate tax rate deduction via TCJA – I will control those via time and firm fixed effects alongside a flexible firm-level control variable. Furthermore, another concern to be raised would be that companies that are exempt from the interest deduction are able to switch between treated and untreated groups based on yearly specifications. I will instead utilize an unbalanced panel to observe the true impacts that firms and financial managers make to maximize shareholder value.

6. Results

Above describes the equations utilized, as well as the controls which I claim to be a flexible vector of firm-control variables. Table 2 details the preliminary results while incorporating more controls and fixed effects. Six models are present in this table. For Columns 1 through 3, I utilize the natural log of total dividends as the dependent variable. First, Column 1 includes firm and year fixed effects, where I find statistically significant results of a 10.4 percentage point increase in total dividends of the treatment group relative to the control. Column 2 removes year fixed effects but includes industry-by-year fixed effects. Column 3 adds debt ratio-by-year and return on assets-by-year fixed effects. The coefficient of interest increases up to a 27.9 percentage point increase of total dividends within the treatment group relative to the control. Columns 4 through 6 are enacted in a similar manner with the sole change being the dependent variable, which is now share repurchases. I once again find statistically significant results, with a 39.2 percentage point increase in share repurchases for the treatment group relative to the control. Note that both total dividends (DVT) and share repurchases (TSTK) have been winsorized at the 1% and 99% level to control for outliers.

Table 2: Preliminary Results

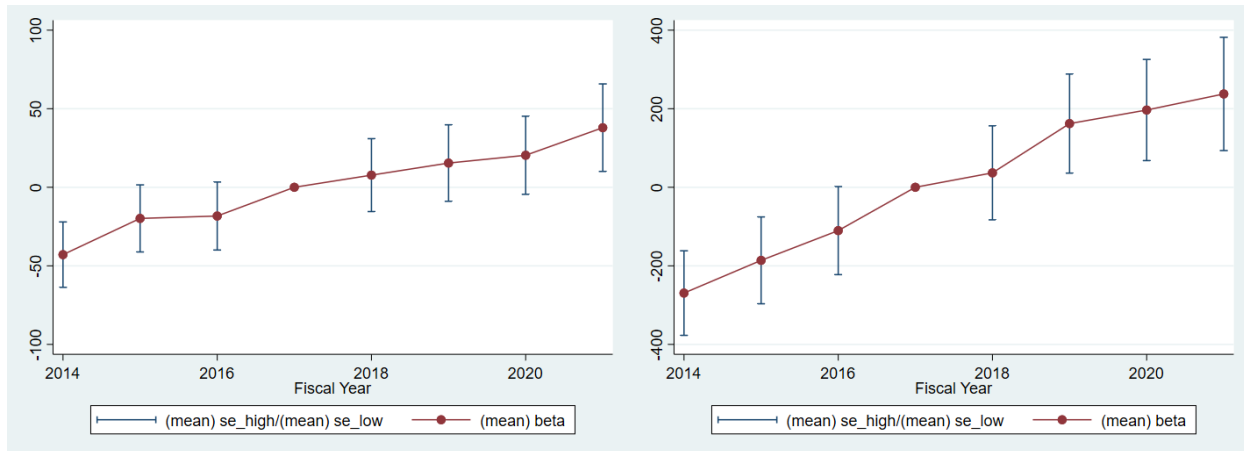
	(1)	(2)	(3)	(4)	(5)	(6)
	Total	Total	Total	Share	Share	Share
	Dividends	Dividends	Dividends	repurchases	repurchases	repurchases
DD	0.104***	0.183***	0.279***	0.212***	0.351***	0.392***
	(0.0285)	(0.0461)	(0.0516)	(0.0382)	(0.0470)	(0.0668)
Firm FE	X	X	X	X	X	X
Year FE	X			X		
Ind x Year		X	X		X	X
DR x Year			X			X
ROA x Year			X			X
Observations	19047	18620	14627	14664	14184	9906
Adj. R ²	0.920	0.925	0.935	0.948	0.949	0.943

Notes: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. Standard errors in parentheses. This table displays the results from the difference-in-differences model. In this model, serves as the outcome variable, as this paper aims to determine if for firms operating at a multinational level changed in the years after TCJA was enacted. This is my preliminary result, which finds statistically significant and positive coefficients, indicating that the policy incited an increase in shareholder payouts. The treatment firms find a 27.9 percentage point increase in total dividends and a 39.2 percentage point increase in shareholder repurchases relative to control firms, respectively. The coefficient of interest increases as I add more controls.

I find that the coefficient is statistically significant at the 99% confidence level regardless of the controls I implement. Since shareholder payouts increase, this indicates that the TCJA of 2017 policy did not stimulate economic growth as intended; rather, I see a sharp decrease in shareholder payouts due to the leniency of corporate taxation. The control variables are included to control for any variation in time, industry, return on assets, or debt ratio with included interactions by year. To ensure that my results are statistically significant, I will look at parallel

trends to ensure that there are no anticipatory effects of TCJA on shareholder payouts. This is shown in Figure 1.

Figure 1: Preliminary Event Study Graph for Total Dividends and Share Repurchases



Within Figure 1, the left-sided graph depicts an event study of total dividends; the right displays an event study of share repurchases. I find that they trend similarly but do not meet the required parallel trends assumption. An interesting note, however, is that both methodologies of shareholder payouts are hindered during 2018.

To better ensure that the results I am obtaining are purely from the thin-capitalization rate change within the TCJA policy, I will restrict the treatment group further; the industry restrictions remain the same, but the gross receipts must now be between \$25 million and \$500 million, respectively. As seen in Albuquerque et al (2019), larger firms with a stronger capital structure and low financial constraints are more likely to introduce share repurchases. By restricting the gross receipt amounts, larger firms – which are more likely to induce share repurchases as they benefit more from TCJA – are now part of the treatment group, and hence I should find different results. This is shown in Table 3.

Table 3: Results

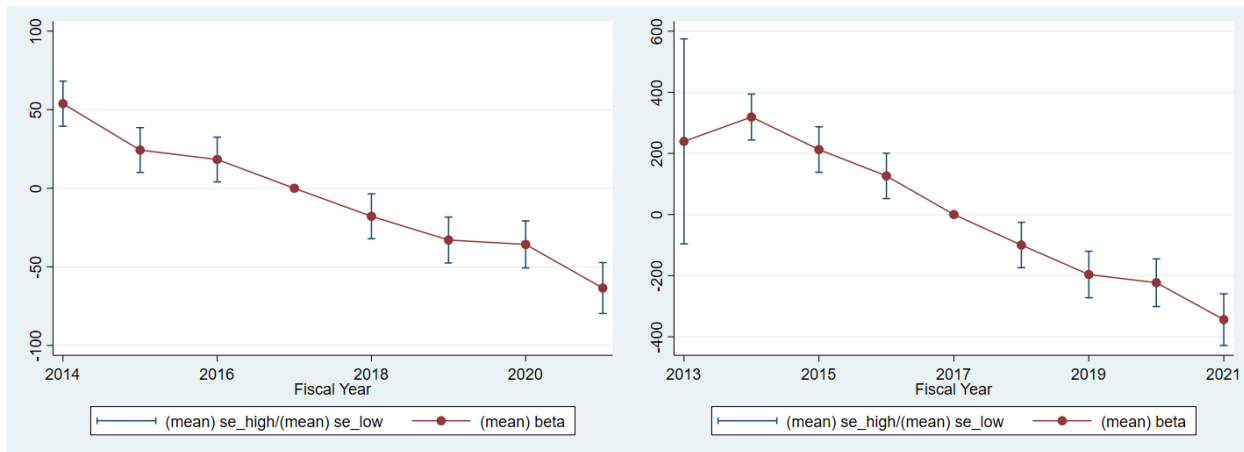
	(1)	(2)	(3)	(4)	(5)	(6)
	Total	Total	Total	Share	Share	Share
	Dividends	Dividends	Dividends	repurchases	repurchases	repurchases
DD	0.0610***	-0.103***	-0.0984***	-0.0953***	-0.122***	-0.0974**
	(0.0233)	(0.0278)	(0.0274)	(0.0283)	(0.0321)	(0.0412)
Firm FE	X	X	X	X	X	X
Year FE	X			X		
Ind x Year		X	X		X	X
DR x Year			X			X
ROA x Year			X			X
Observations	19047	18620	14627	14664	14184	9906
Adj. R ²	0.920	0.925	0.935	0.948	0.949	0.942

Notes: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. Standard errors in parentheses. This table displays the results from the difference-in-differences model. In this model, serves as the outcome variable, as this paper aims to determine if for firms operating at a multinational level changed in the years after TCJA was enacted. I remove observations that have gross receipts of \$500 million or more. The treatment firms find a 9.84 percentage point decrease in dividends and a 9.74 percentage point decrease in share repurchases relative to control firms, respectively. Adding Industry-by-year heavily decreases both dividend and share repurchase, while incorporating the Debt Ratio and ROA-by-year controls slightly increases the coefficient but maintains significance at the 1% level for total dividends and is statistically significant at the 5% level for share repurchases.

Table 3 appears to contradict our preliminary results. Maintaining the flexible control variables, the only change between Table 2 and Table 3 is the removal of treatment firms with gross receipts greater than \$500 million. I find that the coefficient for total dividends is significant at the 99% confidence level regardless of the controls I implement. It appears that share repurchases maintain significance at the 99% confidence level until incorporating debt ratio and return on asset controls interacted with the fiscal year. These results demonstrate that smaller firms – those that are more likely to be impacted by the TCR policy within TCJA – are

reducing shareholder payouts, which is what economic intuition implies. To ensure that my results are solidified via the key identifying assumption, I generate event study graphs in Figure 2 to demonstrate parallel trends.

Figure 2: Event Study Graph for Total Dividends and Share Repurchases



Similar to Figure 1, Figure 2 displays event study analysis to demonstrate parallel trends. I find that both total dividends (figure on the left) and share repurchases (figure on the right) trend similarly – much like in Figure 1 – but again fail to demonstrate that parallel trend assumption holding.

Despite failing the parallel trends assumption, both my preliminary and final results confirm previous literature and economic intuition. My preliminary results confirm previous literature that firms impacted by TCJA increase their shareholder payouts; in total dividends we see a 27.9 percentage point increase within the treatment group relative to the control, and share repurchases find a 39.2 percentage point increase within the treatment group relative to the control group. My final results confirm intuition that larger firms with improved corporate structure and lower financial constraints were more likely to have larger share repurchase amounts. Removing firms with gross receipts larger than \$500 million within my treatment

group, I find that total dividends decrease by 9.84 percentage points within the treatment group relative to the control, and share repurchases have a 9.74 percentage point decrease within the treatment group relative to the control group. While my results are statistically significant, it is important to note the lack of evidence to back up my identifying and parallel trend assumptions, and hence my results should be analyzed for shareholder payout coefficient signs and future improvements in researching the impact of tightening TCR restrictions on shareholder payouts.

7. Conclusion

The Tax Cut and Jobs Act of 2017 was the most notable alteration of the United States' taxation policy in several decades. The TCJA had skeptics and supporters alike; on one hand, the supporters argued the policy would lead to an increase in economic growth. On the other hand, cynics believed alleviating corporate taxation would lead to an increase in shareholder payouts, inhibiting economic growth. I analyze how the TCJA impacted shareholder payouts via dividends and share repurchases with the expectation that those more greatly impacted would have a decrease in shareholder payouts due to changes within the capital structure.

In this paper I analyze the effect of the TCJA of 2017 on shareholder payouts. The findings found within my paper include mixed results; preliminary results find an increase in total dividends and shareholder payouts by 27.9 and 39.2 percentage points, respectively, for the treatment group relative to the control. This confirms related literature, which found an increase in share repurchases when observing the impact of TCJA on shareholder payout methodologies.

To avoid other sub policies within the TCJA, I remove larger firms that contain gross receipts of \$500 million or more. This allows my paper to better observe the impact of the TCR sub policy on shareholder payouts; Albuquerque et al (2019) states that larger firms with strong

corporate structure and low financial constraints are more likely to increase share repurchases. Furthermore, tax incentives within the TCJA benefit larger firms – eliminating larger firms allows us to better observe the impacts of the TCR policy. When limiting the treatment group to those with gross receipts between \$25 million and \$500 million (whilst maintaining the restrictions on industries), I find that total dividends and share repurchases decrease by 9.84 percentage points and 9.74 percentage points for the treatment group relative to the control, respectively.

The validity of my results are questionable at best, as I struggle to find evidence that confirms the identifying assumption – in the absence of the TCJA policy, both treatment and control groups would trend similarly in terms of total dividends and share repurchases. Figures 1 and 2 fail to prove parallel trends prior to the implementation of TCJA. The difference between control and treatment groups in all of my event study graphs is not near zero, and rarely does zero enter within the 95% confidence interval range. My results are hence mixed, and future revisions will attempt to include more controls in order to better observe the effects of the TCJA on shareholder payouts with the hopes that the parallel trends assumption is met.

Future research of this topic could utilize different outcome variables; for one, debt and equity issuance would solidify my economic intuition regarding shareholder payouts. The expectation would be that either equity issuance increases or debt financing decreases. Additionally, controlling other policies within TCJA, such as BEAT or other tax incentives, could allow for better controls and hence a potential statistically significant result with replicable results.

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