

# Lessons from the Biggest Business Tax Cut in US History

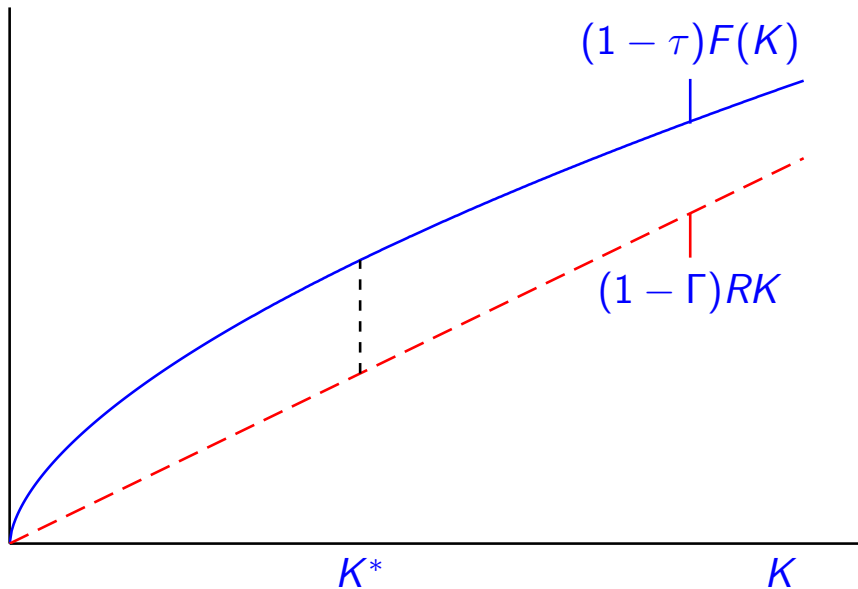
Gabriel Chodorow-Reich, Harvard and NBER

Owen Zidar, Princeton and NBER

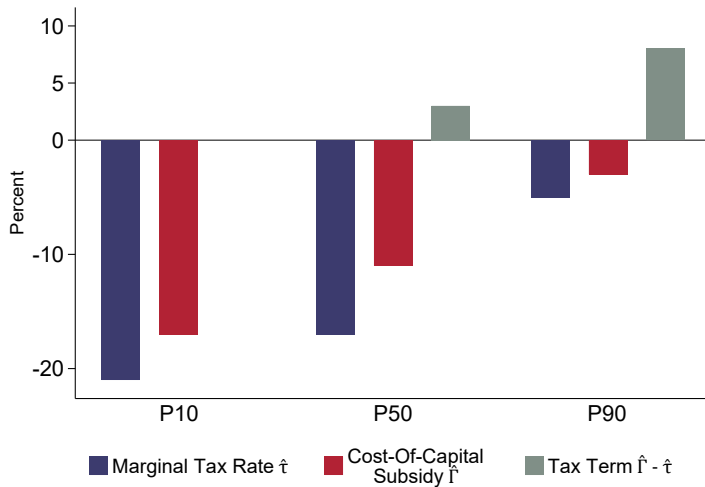
Eric Zwick, Chicago Booth and NBER

September 2024

## Firms' Optimal Choice of Capital



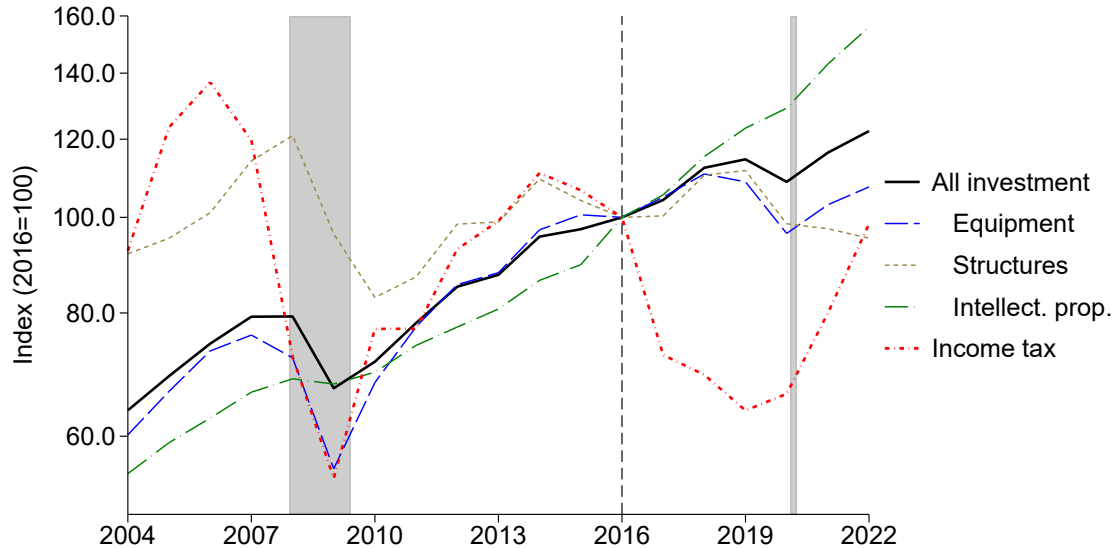
## The TCJA had Heterogeneous Effects on $\tau$ and $\Gamma$



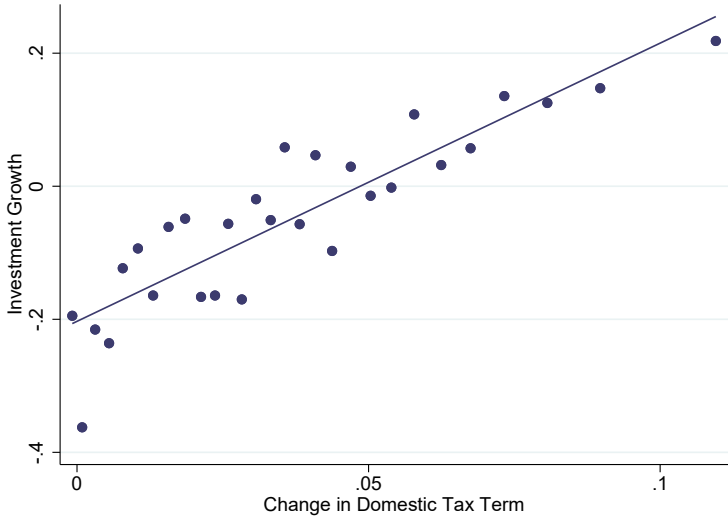
**Average MTR:** 10.2 p.p. decrease

**Average Cost of Capital:** 8.5 p.p. decrease

## Corporate Income Tax Revenue and Investment Around the TCJA



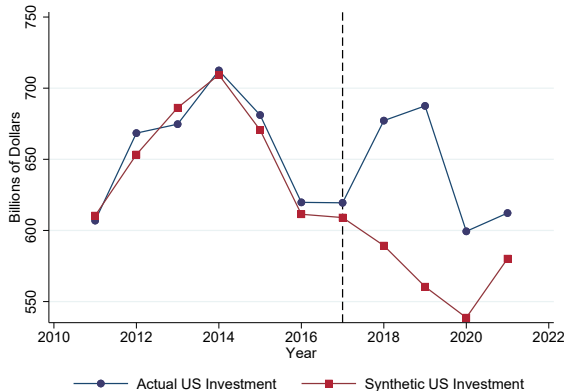
# Short-Run Investment by Domestic Firms



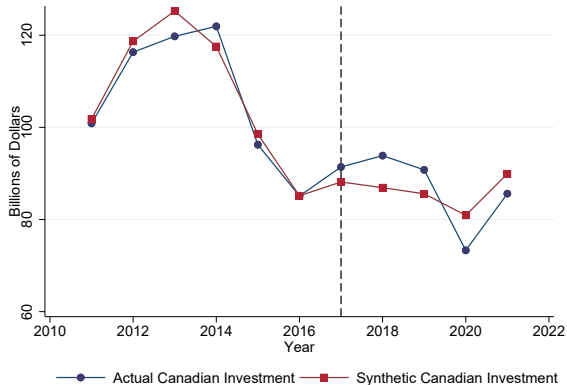
Source: CSZZ (2024)

# Synthetic Control Evidence for Global Investment Effects

## Actual Experiment



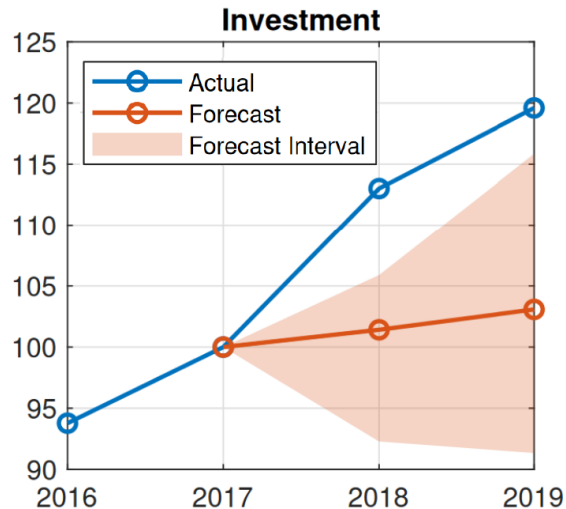
## Placebo with Canadian Firms



Magnitude: roughly +17% increase in global investment by US firms

Source: CSZZ (2024)

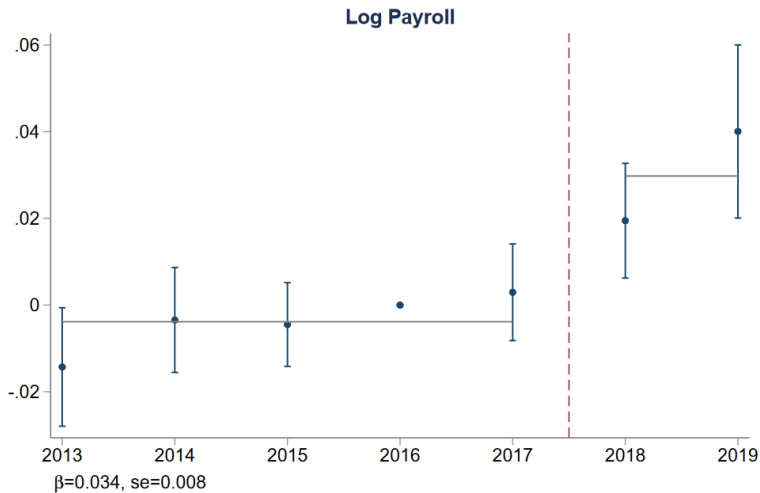
## Forecast-Based Evidence for Global Investment Effects



Magnitude: averaged over 2018–2019, global investment increases by  $\approx 14\%$  above the forecast path.

Source: Furno (2023)

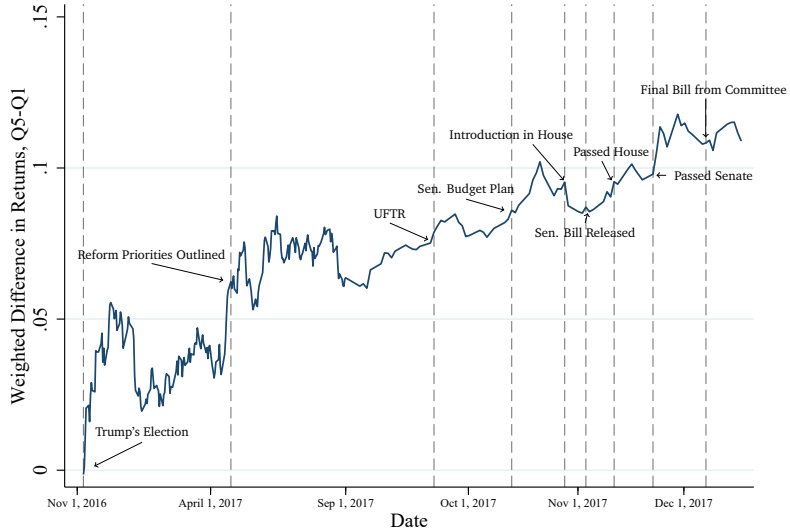
## Average Short-Run Effects on C-corporation Wages



KDLM (2023) compare C corps. to S corps.  $\Rightarrow$  relative wages increase by  $\approx$  \$700.

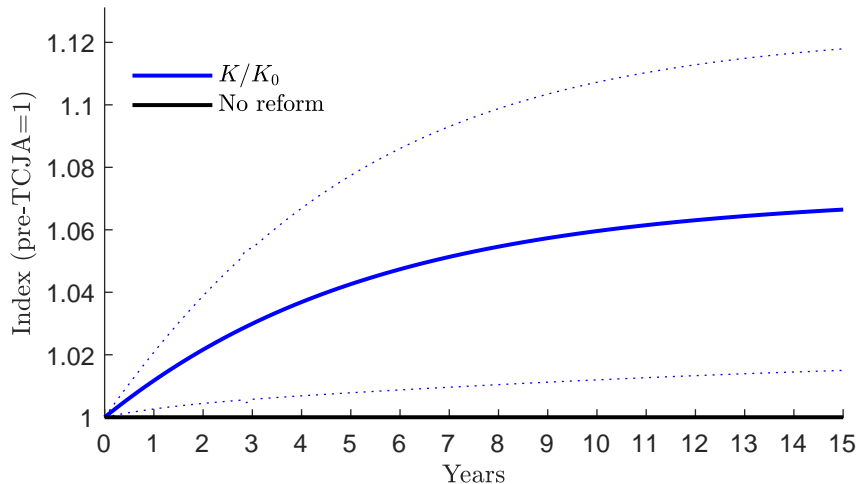


# Effects on Stock Price for High- v. Low-Exposure Firms in Policy Debate



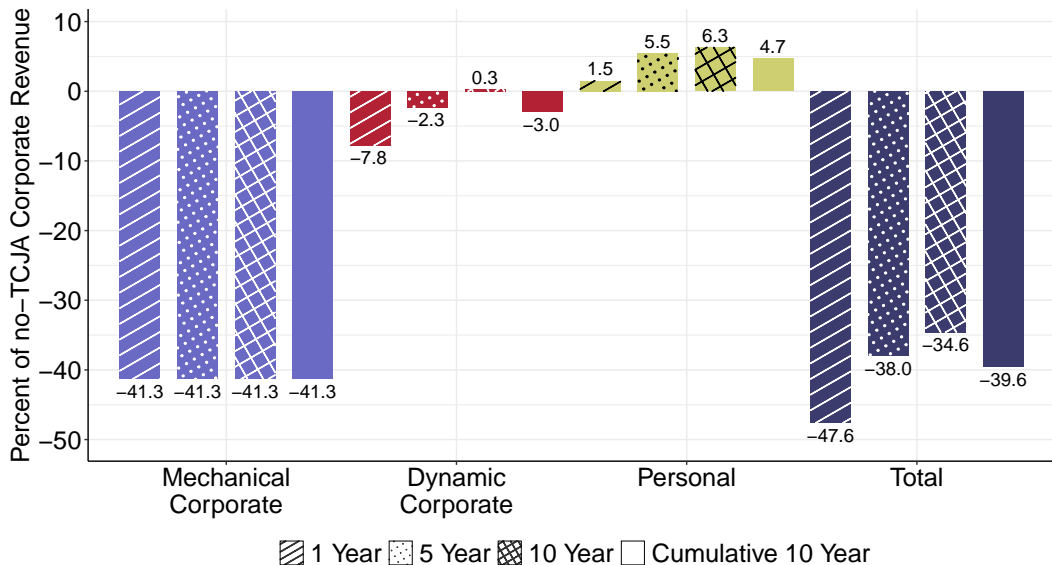
Source: CSZZ (2024)

## Model-Based Evidence for Long-Run Investment Effects (CSZZ)



Magnitude: roughly +7% domestic corp. capital.

## Model-Based Evidence for Long-Run Revenue Effects (CSZZ)



## Fingers Crossed for an Informed Policy Debate

- Many provisions of the TCJA will change or expire.
- The fiscal position of the US is worse than in 2017.
- Which provisions had the highest bang for the fiscal buck?
  1. Accelerated depreciation provide significant bang for the fiscal buck.
  2. Tax cuts to pass-throughs are especially unattractive.
  3. Reforming the international provisions (e.g. FDII or GILTI) would likely result in more domestic investment.
  4. More in the paper!