Investment and the Tax Cuts and Jobs Act

Where did the projections go wrong?

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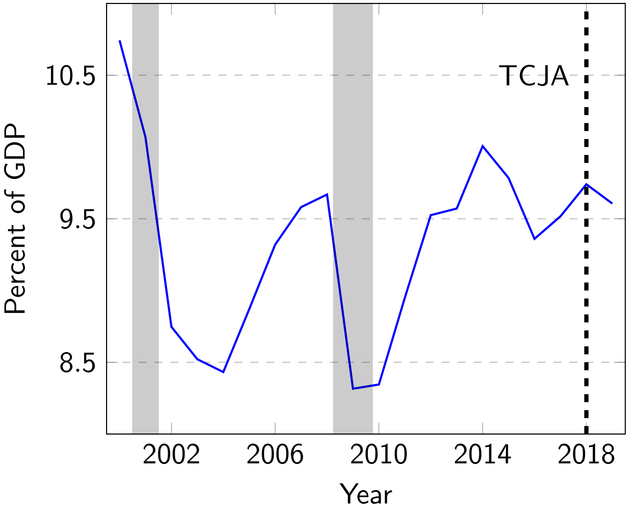
Key Features of TCJA for Corporate Investment

Feature	Predicted Effect
Drop in Tax Rate	$(+)$
Full Expensing	$(+)$
Limited Deductibility	$(-)$
International Provisions	$(-)$

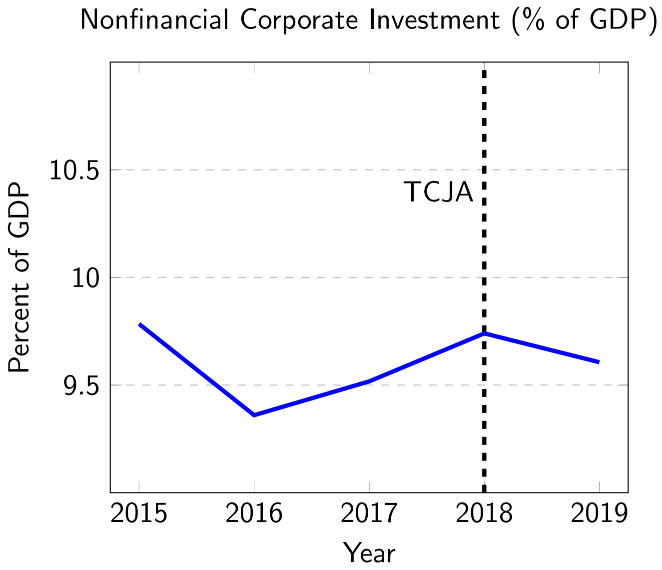
Corporate Investment in the 21st Century

Nonfinancial Corporate Investment (% of GDP)



Nonfinancial Corporate Investment (% of GDP)

Corporate Investment and TCJA



Apple Investment Decisions

Year	Statutory Rate	Capital Expenditures	R&D
2016	35.0	10.5	8.3
2017	35.0	9.5	8.7
2018	24.6	8.7	9.3
2019	21.0	7.0	10.7

Table: Apple Statutory Rate, Capital Expenditure, and R&D (2016-2019)

Woodward Investment Decisions

Year	Statutory Rate	Capital Expenditures	R&D
2016	35.0	11.9	8.5
2017	35.0	6.0	8.3
2018	24.6	7.4	8.6
2019	21.0	4.5	7.3

Table: Woodward Statutory Rate, Capital Expenditure, and R&D (2016-2019)

Why did the projections fail?

- Macroeconomic conditions
- Policy uncertainty
- Little change in the *effective* rate

Why did the projections fail?

- Macroeconomic conditions
  - Motivation: The effect of a tax cut will be smaller if the economy is already strong
  - Low unemployment
  - Already had strong investment

Why did the projections fail?

- Policy uncertainty
  - Motivation: Increased uncertainty leads to less investment
  - Complex, complicated changes to tax code
  - Volatile political environment
    - Changes to tax code interpreted as transient due to how reversible they are
    - Impermanence built into TCJA
  - Trade war increased uncertainty

Why did the projections fail?

- Little change in the *effective* rate
  - Motivation: If effective rates have not changed, then the incentive to invest has not changed either
  - The effective rate barely changed from 2017-2019
  - Why not? Two hypotheses:
    - Firms anticipated the tax cut
    - Mini-recession in 2015-16 caused effective rates to be lower in major investment sectors in 2017

Implications for theory

- What can we do better next time?
  - Take political economy more seriously
  - Be careful with applying analyses of previous tax events
  - Important to consider *effective* rates, rather than *statutory* rates

Questions?

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