



# The Impact of Investment Incentives: Evidence from UK Corporation Tax Returns

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AMERICAN ECONOMIC JOURNAL: ECONOMIC POLICY  
VOL. 11, NO. 3, AUGUST 2019  
(pp. 361-89)

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Article Information

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## Abstract

Using UK corporation tax returns, we provide evidence on the effects of accelerated depreciation allowances on investment, exploiting exogenous changes in the qualifying thresholds for first-year depreciation allowances (FYAs) in 2004. The investment rate of qualifying companies increased by 2.1–2.5 percentage points relative to those that did not qualify. We exploit variation in the timing of tax payments to show that this effect is primarily due to the change in the cost of capital, rather than a relaxation of financial constraints. Discontinuity at notches in the cost of capital at the qualifying thresholds does not affect our results.

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DOI: 10.1257/pol.20170254

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## Additional Materials

[Replication Package \(273.01 KB\)](#)

[Author Disclosure Statement\(s\) \(1.11 MB\)](#)

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## JEL Classification

**D25** Intertemporal Firm Choice: Investment, Capacity, and Financing

**G31** Capital Budgeting; Fixed Investment and Inventory Studies; Capacity

**H25** Business Taxes and Subsidies including sales and value-added (VAT)

**H32** Fiscal Policies and Behavior of Economic Agents: Firm

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