



## American Economic Journal: Economic Policy

ISSN 1945-7731 (Print) | ISSN 1945-774X (Online)

≡ Menu

# The Effect of Corporate Taxation on Investment and Financial Policy: Evidence from the DPAD

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AMERICAN ECONOMIC JOURNAL: ECONOMIC POLICY

VOL. 10, NO. 2, MAY 2018

(pp. 272–301)

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Article Information

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### Abstract

This study estimates the investment, financing, and payout responses to variation in a firm's effective corporate income tax rate in the United States. I exploit quasi-experimental variation created by the Domestic Production Activities Deduction, a corporate tax expenditure created in 2005. A 1 percentage point reduction in tax rates increases investment by 4.7 percent of installed capital, increases payouts by 0.3 percent of sales, and decreases debt by 5.3 percent of total assets. These estimates

suggest that lower corporate tax rates and faster accelerated depreciation each stimulate a similar increase in investment, per dollar in lost revenue.

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Ohrn, Eric. 2018. "The Effect of Corporate Taxation on Investment and Financial Policy: Evidence from the DPAD." *American Economic Journal: Economic Policy*, 10 (2): 272–301.

DOI: 10.1257/pol.20150378

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## JEL Classification

**D22** Firm Behavior: Empirical Analysis

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

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

**G32** Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; Value of Firms; Goodwill

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

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

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