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Jan. 28, 2019

Why did hundreds of companies announce positive actions — from wage increases to expanding facilities — after the new tax law took effect in 2018? Was their motivation economic or political?

The Tax Cuts and Jobs Act, signed into law by President Trump on Dec. 22, 2017, made a number of changes, including cutting the corporate income tax rate to 21 percent from 35 percent and altering how foreign profits are taxed.

[More from the University of Michigan Ross School of Business.]

The reduction in tax payments to the U.S. government means firms will have billions



They found:

- 4 percent of public firms in the sample announced in the first quarter of 2018 that they would pay some portion of their tax savings toward workers.
- 22 percent of the S&P 500 firms in the sample mentioned in earnings conference calls that they would increase investment because of the tax law changes.
- A general increase in share repurchases following the passage of the act, but the increase was extremely concentrated in a small number of firms. Only nine firms that announced a new share repurchase plan explicitly attributed it to the act.
- No evidence that the number of firms announcing dividends or the total amount of dividends increased significantly.

"This is the biggest tax income tax change we've had in the U.S. since 1986," Slemrod said. "One of the consequences one could see right away, even before it was signed, was that lots of companies were saying, 'We're going to do these great things because of the tax law,' which seemed like an interesting phenomenon. Never before have we seen so many such announcements."

Their analysis found that both political and economic variables explain the announcements.

"The analysis suggests that firms with greater expected tax savings from the TCJA are those most likely to announce payments to workers and plans to increase investment," Slemrod said. "Firms with a political action committee that donates more to Republican candidates are also more likely to announce benefits to employees."

The act represents the most comprehensive change in the U.S. income tax law since the Tax Reform Act of 1986. The consequences of the act will depend in large part on the impact of the business tax changes on the economy, which will in turn rest on



Slemrod sees both positive and negative effects from the tax law changes.

"If it were up to me, I would have voted no on the tax package, largely because of its impact on the deficit—$1.5 trillion over the next 10 years," he said. "We already have a huge fiscal imbalance, and this is just going to make it worse. And the fact that it didn't address problems like inequality and climate change.

"I would have voted no, but I don't think it's all terrible. I think there was a pretty wide consensus that we had to do something like the changes that were made to corporate taxes. Many Democrats had favored a cut in the corporate tax rate, which was the signature element of this tax reform. So it's certainly not all bad."

Read the full study.

Technology