Tax Reform Made Me Do It

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Note: This is an aspirational document. As we have just begun the project, it is likely that the conference paper will complete a proper subset of what is discussed herein, although it may also end up addressing some aspects of the question not mentioned in this proposal.

Because of its comprehensiveness, the Tax Cuts and Jobs Act (TCJA) provides researchers with scores of natural experiments that promise to shed light on how the tax code affects the behavior of individuals and businesses. Although some aspects of this response, such as behaviors made in anticipation of the law changing in 2018 and other short-term timing effects, can be examined immediately, the analysis of most other responses must await data that shed light on the medium- and long-term responses to the changed tax landscape.

This paper will examine one short-term response to TCJA, the rash of public announcements by businesses that tie popular decisions to the TCJA. For example, the Trump administration reported that, as of February 9, 2018, more than 300 companies had announced tax-cut-related bonuses and raises, benefiting 3.5 million workers. Figures 1 through 3 below provide some indication of the extent, geographic breakdown, and timing of the announcements of worker bonuses and stock buybacks. Because of the extreme partisan nature of TCJA—no Democrat in either house of Congress voted for it—and its place as the most prominent singular legislative achievement of the 115th Congress—its perceived success has partisan consequences, so tying positive actions to the TCJA may in part be an attempt to curry favor with the party in power. This is stark contrast to the last major U.S. tax bill, the Tax Reform Act of 1986, which had bipartisan support.

This paper aspires to do three things. First, it will provide descriptive data on which firms have announced "positive" TCJA-inspired decisions: which industries, where they disclose, what they disclose (wage increases and bonuses to labor, dividend increases, paying down debt, share buybacks), and to what aspect of TCJA they attribute the decision (e.g., a lower tax rate, full expensing, and/or influx of offshore cash). It will plot the timing of these announcements—e.g., did any happen before the law was in place? To the extent the data allow, it will compare the pattern of these announcements to what economic theory might have predicted ex ante. How are disclosures about "negative" events (e.g., layoffs) treated? We will pay special attention to how "in-between" decisions are handled; we have in mind here share buybacks, which, although completely consistent with behavior predicted by corporate finance theory, have been described by some observers as confirming opponents' predictions that TCJA would overwhelmingly provide benefit to

shareholders, with only a small fraction of the tax savings of businesses trickling down to workers, contrary to the claims made by prominent supports of TCJA.

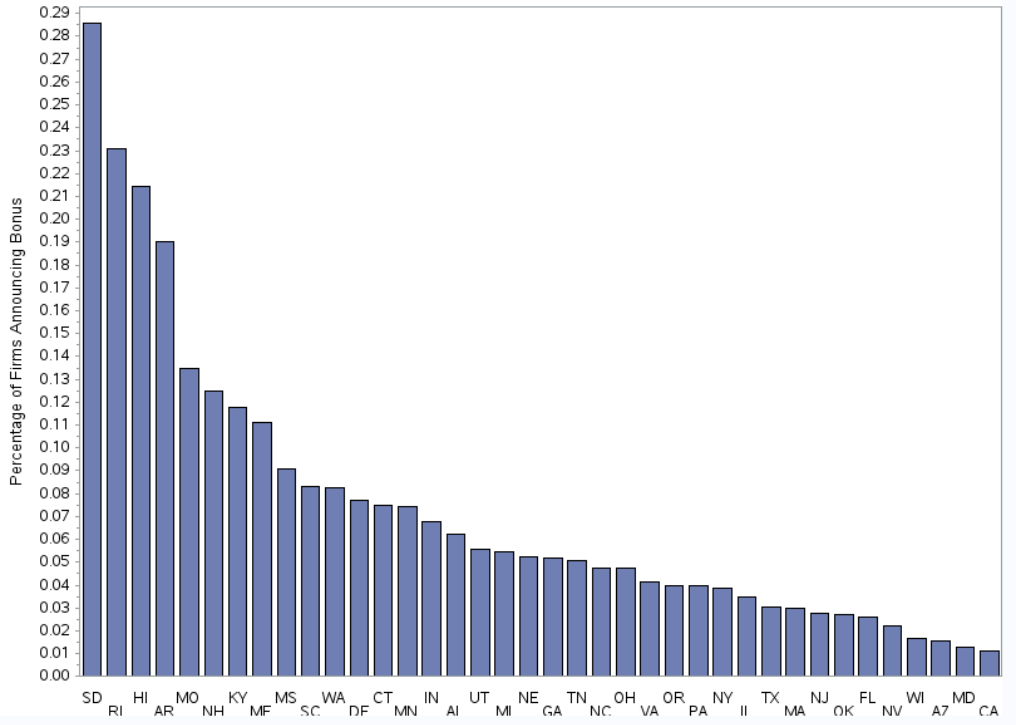
Second, the paper will investigate the determinants, or at least correlates, of the business decisions, and the public tie to the TCJA. Potential determinants we will investigate include 1) business size, 2) politically sensitive industry dummy, 3) measures of corporate social responsibility, 4) financial constraints, 5) capital-intensive versus intangible-intensive, 6) unionization, 7) red-state versus blue-state location of headquarters and business activity, and 8) domestic only versus multinational versus subsidiary of a foreign multinational. We will do our best to identify a control sample, such as disclosures about bonuses and stock repurchases, etc., in the year or two before TCJA. Other issues we will address include whether firms that disclose are firms with better disclosure generally, are the firms that disclose more likely to be firms that have received SEC comment letters about tax disclosures before, and are firms more likely to disclose after a close competitor discloses.

Third, we will compare the prevalence of these announcements to what economic theory would predict about same. We will relate the results to models of the business response to cash shocks, models of how investment depends on aspects of taxation, and recent models of rent sharing.

This study lies in the under-studied intersection between three distinct literatures: 1) corporate disclosure, 2) the economics of how tax affects business decisions, and 3) business lobbying. While 2) is about the reality, 1) is about what firms say about the reality. It is well understood that, e.g., financial accounts provide a less-than-transparent view of what corporations are actually doing, and their prospects. Business lobbying is concerned with what businesses do to influence the policy reality/environment in which they operate; one recent political science paper focuses on what is called “ex-post lobbying,” trying to explain the fact that fully 40% of lobby effort, for all bills and not just tax bills, happens *after* the bill is passed.

Figure 1. Firms Announcing Tax Reform Bonuses by State

Panel A. Percentage by State



Panel A. Frequency by State

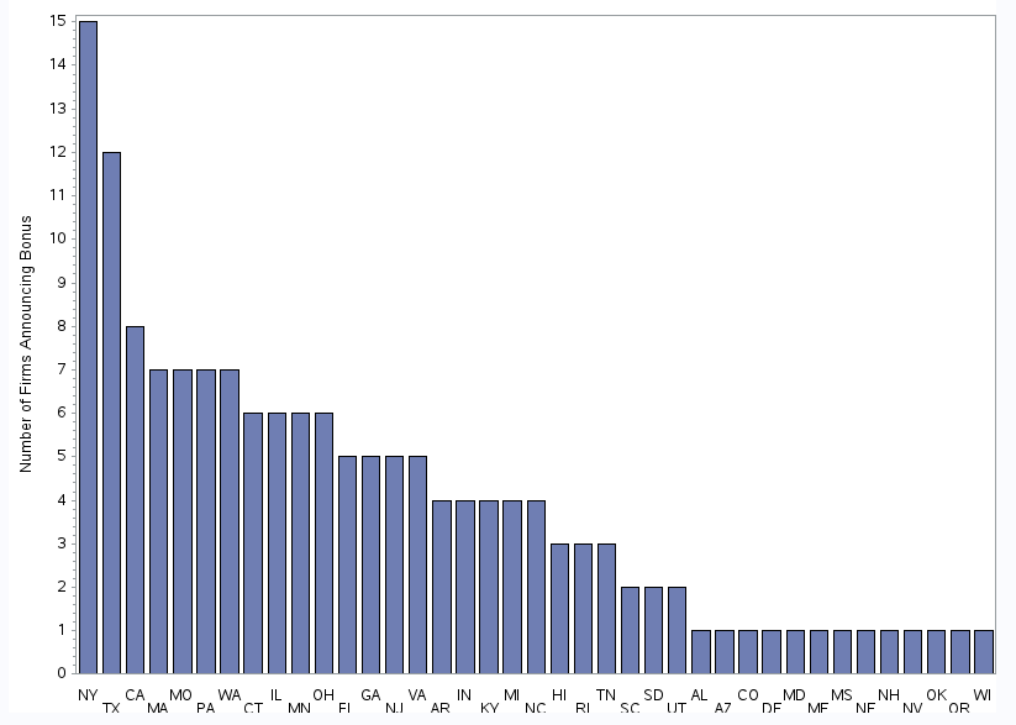
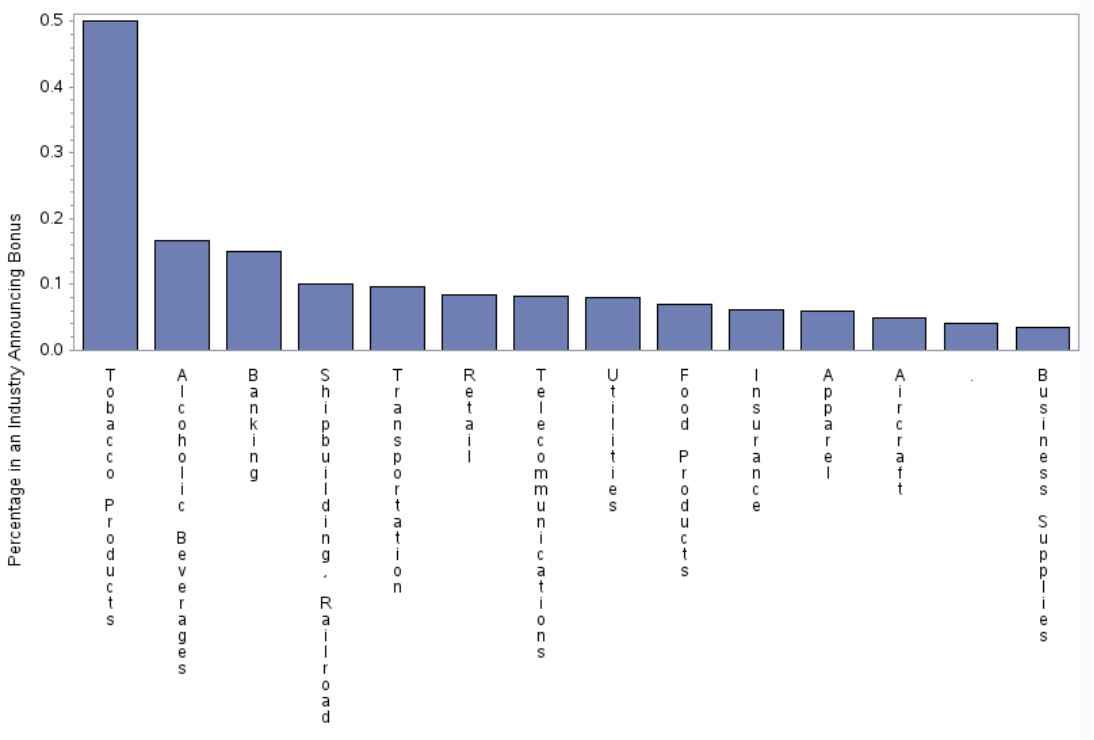


Figure 2. Firms Announcing Tax Reform Bonuses by Industry

Panel A. Percentage by State



Panel B. Frequency by Industry

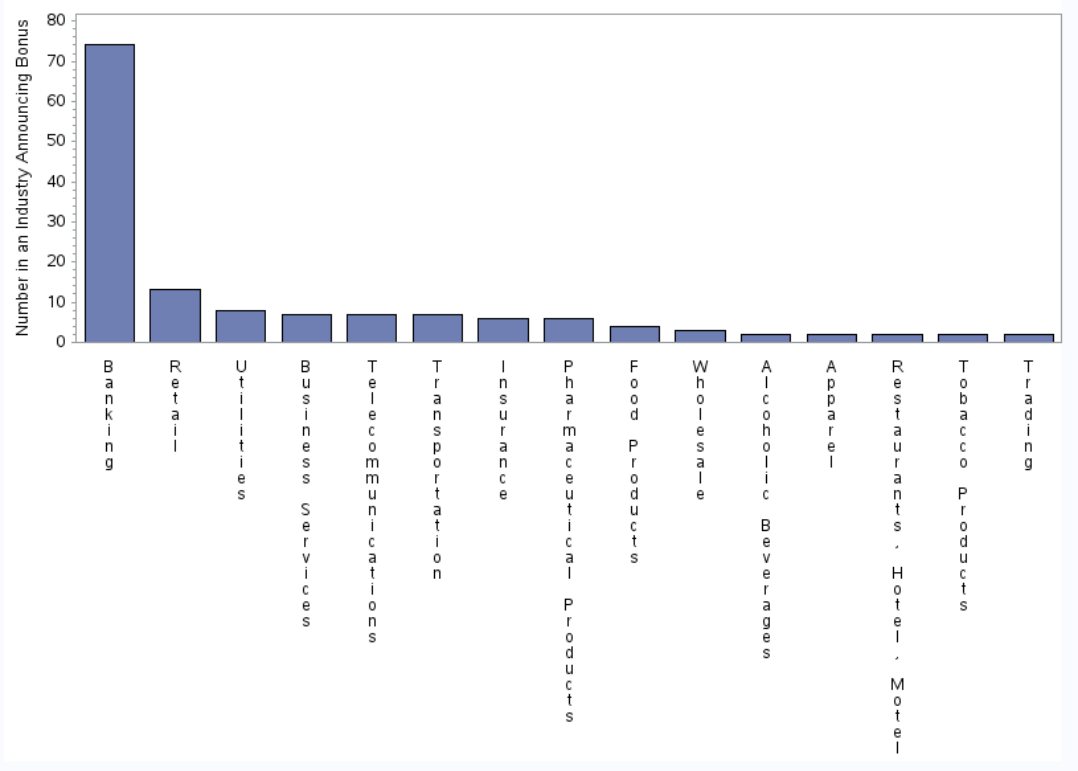
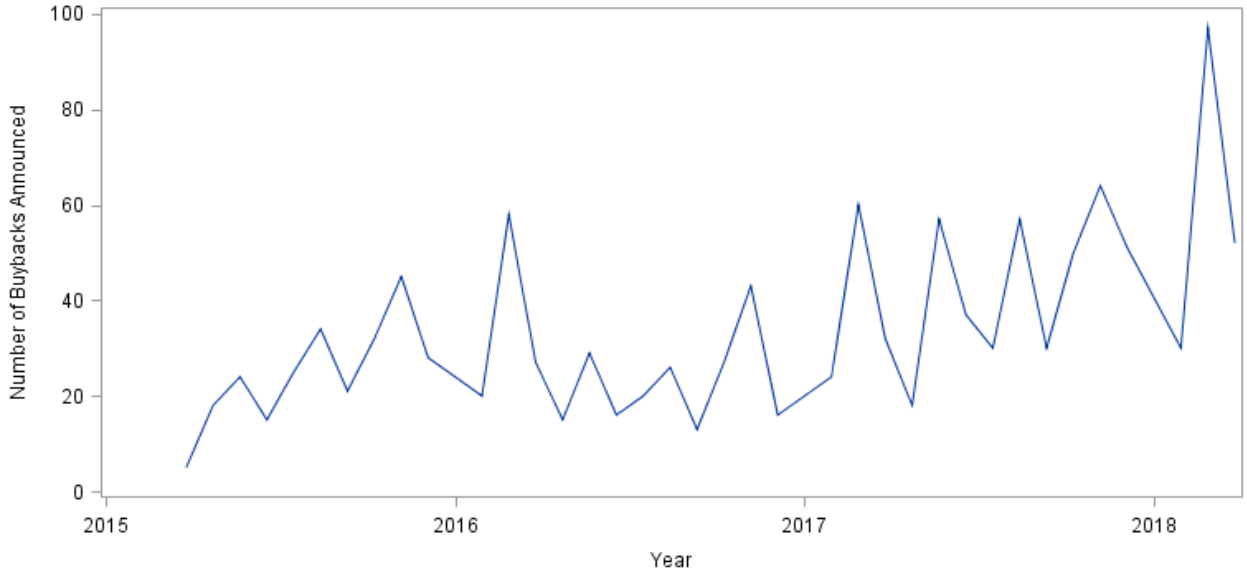


Figure 3. Stock Buyback Announcements

Panel A. Stock Buyback Announcement By Month



Panel B. Stock Buyback Announcement by Day

