

Corporate Tax Cuts, Firm Growth, and Workers' Earnings

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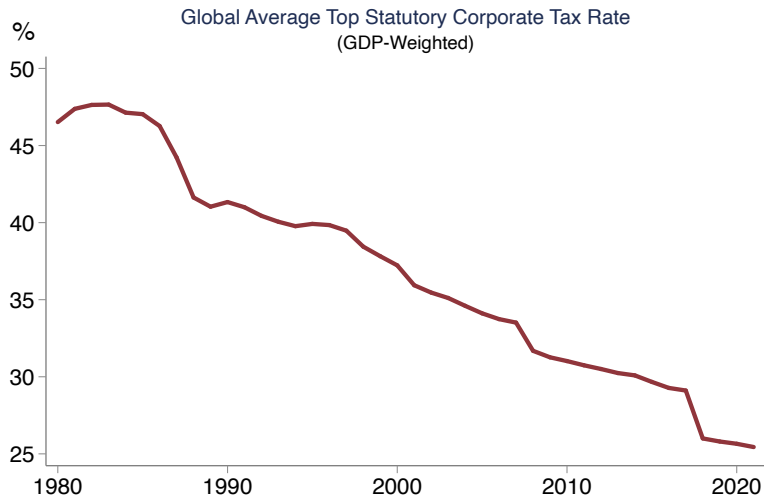
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Motivation

Global decline in corporate tax rates since 1980



Research Questions

- Long-standing debate:
 1. How large are output distortions from the corporate tax?
 2. What are the distributional effects?
- Advocates argue tax cuts increase growth, benefit workers
- Critics argue growth effects are negligible, benefit the wealthy

What Do We Know?

Unclear if existing evidence is generalizable to the federal corporate tax

- State/local corp tax: Moderate to large tax base elasticities

Giroud & Rauh '19; S-Serrato & Zidar '16; Devereux et al. '14; Bachas & Soto '22

⇒ Differences in factor mobility of federal vs. state/local?

⇒ Differences in magnitude of the tax burden?

- Investment responses context-specific (dividend tax, bonus, cap gains...)

Link et al. '22; Zwick & Mahon '17; Yagan '15; Cummins et al. '94/'96

⇒ Theory implies corp tax has different effects

- Mixed findings on incidence

Risch '22; Dobridge et al. '21; Carbonnier et al '20; Fuest et al '18; S-Serrato & Zidar '16

Missing Evidence on the Federal Corporate Tax

Why is evidence scarce?

1. Federal tax reforms are rare events
2. Microdata previously unavailable to researchers
3. Difficult to find credible counterfactuals

This Paper

1. Large Federal Tax Change + Rich Microdata + Within-Country Design

- Exploit variation from the 2017 Tax Cuts and Jobs Act (TCJA)
- Employer-employee linked IRS microdata
- DiD comparing firms of similar size, same industry

2. Empirics

- Firm-level evidence: profits, sales, investment, shareholder payouts
- Worker-level evidence: employment, earnings
- Market-level evidence: GE wage effects

3. Stylized Model

- Illuminate mechanisms
- Quantify incidence, MVPF
- Benchmark against alternate taxes

Key Findings

1. Corporate tax cuts deliver substantial output gains

- Tax cuts $\implies$ $\uparrow$ investment, payrolls, profits
- Not just profit shifting; also affects the real economy
- Marginal \$1 corp tax cuts generates $\approx$ \$1.47 in private income

2. Distributional effects are highly uneven

- Tax cuts $\implies$ $\uparrow$ within-firm earnings dispersion, after-tax profits
- Large increases in executive pay; null effect for typical worker
- GE wage gains muted and close to zero in short-run
- Income gains concentrated in high-wage cities

Related Literature

- 1. Corporate ETI** Bachas and Soto '21; Giroud and Rauh '19; Hines '17; Suárez-Serrato and Zidar '16; Devereux, Liu, Loretz '14; Gruber and Rauh '07; Feldstein '99
- 2. Investment** Curtis, Garret, Ohrn, Roberts, Suárez-Seratto '22; Link, Menkhoff, Peichl, and Schüle '22; Edgerton et al '21; Chen, Jiang, Liu, Suárez-Seratto '19; Zwick and Mahon '17; Yagan '15; House and Shapiro '08; Caballero and Engel '99; Cummins, Hassett, and Hubbard '94/96; Auerbach '83; Hall and Jorgenson '67
- 3. Incidence** Gale and Thorpe '22; Risch '22; Ohrn '21; Dobridge, Landefeld, Mortenson '21; Carbonnier, Malgouyres, Py, Urvoy '20; Baker, Sun, Yannelis '20; Fuest, Peichl, Siegloch '18; Suárez-Serrato and Zidar '16; Clausing '13; Auerbach '06; Kotlikoff and Summers '87; Harberger '62
- 4. TCJA** Chodorow-Reich, Smith, Zidar, and Zwick '26; Jansky, Zucman '22; Garcia-Bernardo, Jansky, Zucman '22; Kennedy and Wheeler '22; Gale and Haldeman '21; Goodman, Lim, Sacerdote, Whitten '21; Dowd, Giosa, Wilmingham '20; Clausing '20; Gale, Gelfond, Krupkin, Mazur, Toder '19; Barro and Furman '18

Roadmap

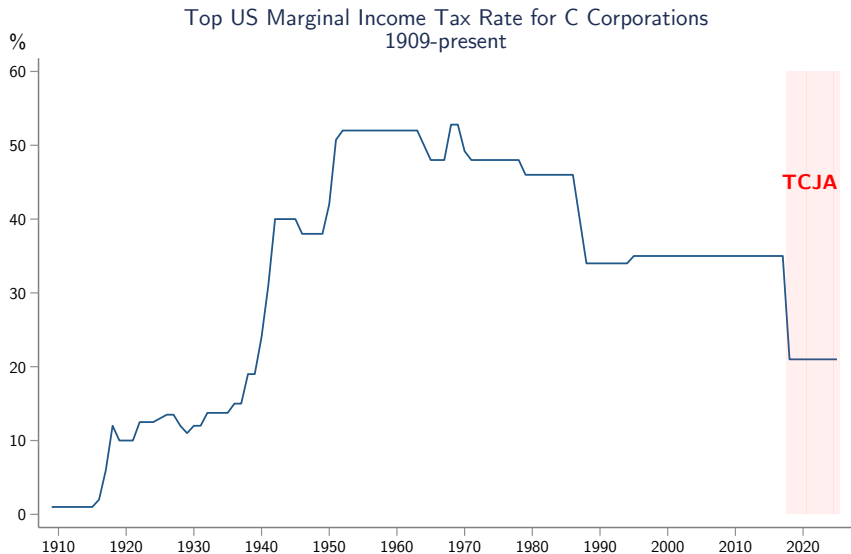
1. **Setting**
2. **Data**
3. **Empirical Strategy and Results**
4. **Mechanisms**
5. **Distributional Analysis**

Setting

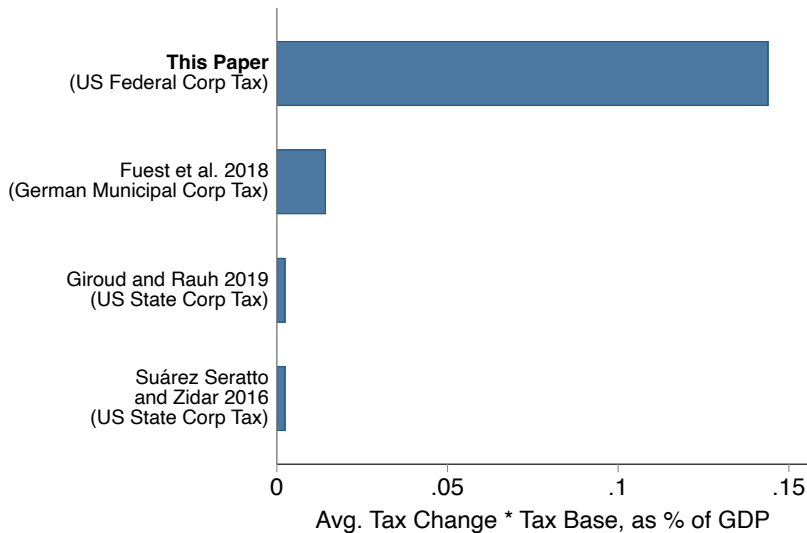
Congress passed the Tax Cuts and Jobs Act in 2017

- Largest corporate tax cut in US history
- Top corporate rate 35% $\rightarrow$ 21%
- $\approx$ \$100B ($\approx$ 0.5% GDP) decline in corp tax revenue from 2017-18 OMB '21

Historically Large Reform



Large Relative to Recent Studies



Empirical Design: C vs. S Corps

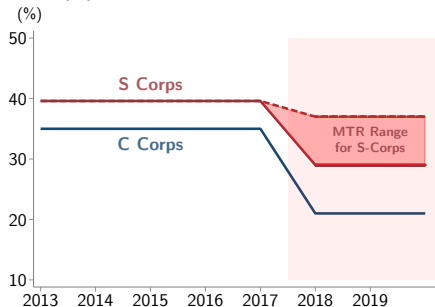
DiD comparing two legal entity types:

Yagan 2015; Giroud and Rauh 2019

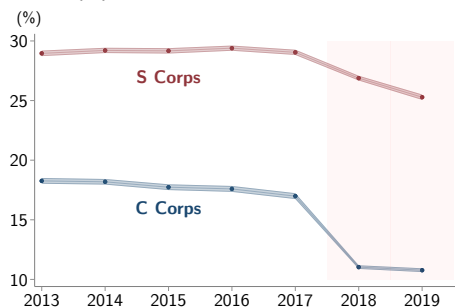
	C Corps	S Corps
Legal Differences		
Taxes	Pay corp, dividend taxes on profits	Owners pay personal taxes on profits
Shareholders	No restrictions	≤ 100 owners; must be individual US citizens
TCJA Changes		
Top Rate Cut	35% $\rightarrow$ 21%	39.6% $\rightarrow$ 37%; 20% QBI deduction

Statutory and Observed Tax Changes

(a) Top Statutory MTR



(b) Avg. Observed MTR



- Statutory and average observed marginal tax rates (MTRs) differ because some firms are in loss positions and/or did not pay the top rate
- Data construction in panel (b) described below
- Key point: significantly larger tax cut for C corps than S corps

Roadmap

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IRS Microdata

Sample: Employer-employee linked federal tax records, 2013-2019

Business Tax Returns (SOI 1120, 1120s)

- Stratified random sample, rolling panel
- Industry, location, age, multinational
- Capital, sales, profits, payouts, taxes paid

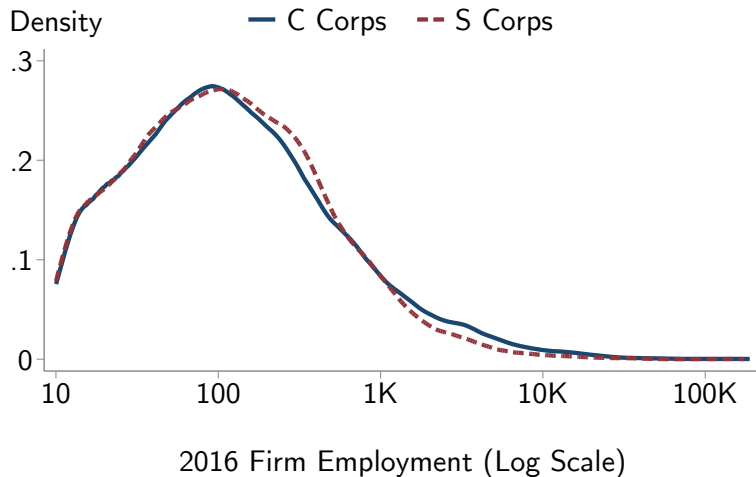
Individual Tax Returns

- Employment and annual earnings (W2)
- Business income from S-Corps (K1)
- Age, gender, location (1040; SSA; info returns)

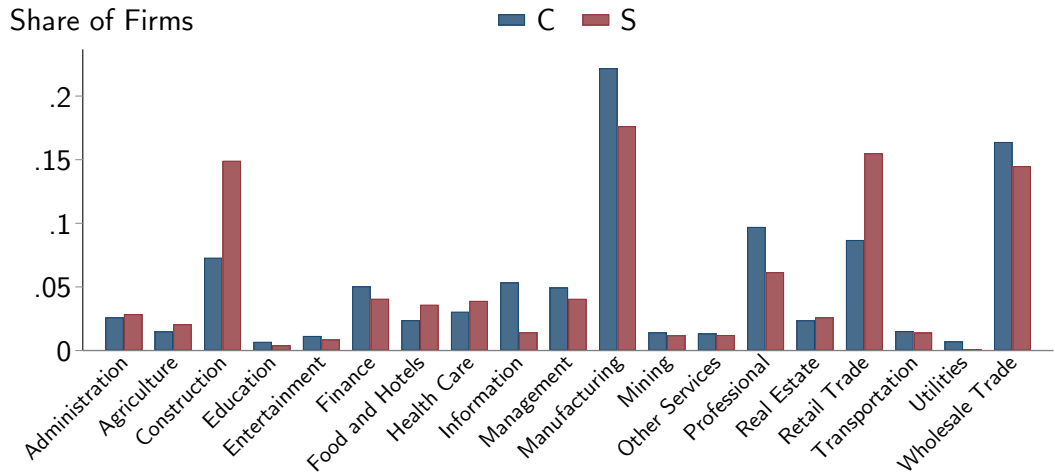
Sample Restrictions

- Domestic private firms only
- Drop $C \leftrightarrow S$ “switchers” (switching is rare and economically small) ▶ switching
- Annual sales between \$1M - \$10B, at least 10 employees, $K > 0$
 - $\approx$ 80th - 99.999th percentile of firm size distribution
 - $> 50\%$ of 2016 corp employment
- Reweight firm sample to match pre-TCJA industry-size distribution
 - A formal pre-caution; unweighted results are virtually identical (see Appendix)

Firm Size Distribution (unweighted)



Industry Composition (unweighted)



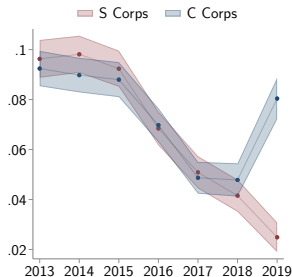
Summary Statistics (unweighted)

	2016 Mean Outcomes		
	All Corps	C-Corps	S-Corps
Sales (mil)	136	160	107
Taxable Income (mil)	2.8	1.7	4.2
Employment	472	544	385
Mean Annual Earnings (thous)	63.2	66.8	58.7
Firm Age	28.0	26.6	29.8
N Firms	32,649	17,915	14,734

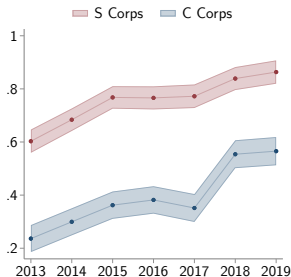
Plotting the Data

Several key results are clear from simply plotting sample means without any controls or weights:

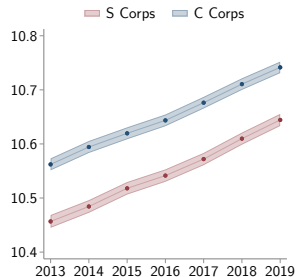
(a) Investment / K_{t-1}



(b) Log Taxable Income



(c) Log Median Earnings



⇒ Empirical strategy formalizes the event study design and tightens controls

Roadmap

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4. Mechanisms
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Empirical Strategy

Estimate:

$$\ln y_{ft} = \sum_{t \neq 2016} \beta_t C_f * \mathbf{1}(\text{year} = t) + \gamma_f + \alpha_{is(f),t} + \epsilon_{ft}$$

- y_{ft} is an outcome for firm f in year t
- C_f is an indicator = 1 if firm f is a C-corp
- γ_f is a firm fixed effect
- $\alpha_{is(f),t}$ is an industry $\times$ size-bin $\times$ year fixed effect
- Cluster standard errors by firm

Identification and Interpretation

$$\ln y_{ft} = \sum_{t \neq 2016} \beta_t C_f * \mathbf{1}(\text{year} = t) + \gamma_f + \alpha_{is(f),t} + \epsilon_{ft}$$

Identification Assumptions

1. Parallel trends in counterfactual with no MTR shocks
 - TCJA was unexpected prior to 2016 elections
 - Compare C vs S outcomes in narrow industry-size-year bins
 - Examine pre-trends to assess plausibility
2. C and S corps share common elasticities WRT tax shocks (since both receive tax cuts)
 - We confirm w/ replication of Zwick-Mahon (2017) [▶ more](#)

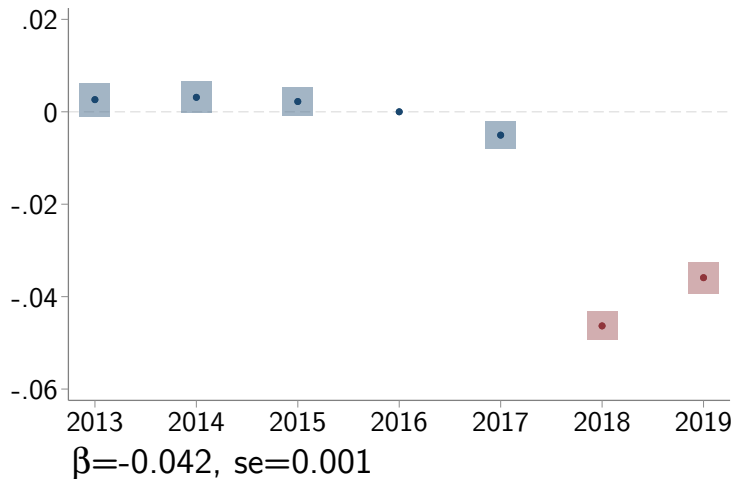
Interpretation

- β_t captures differential trend of C relative to S

Roadmap

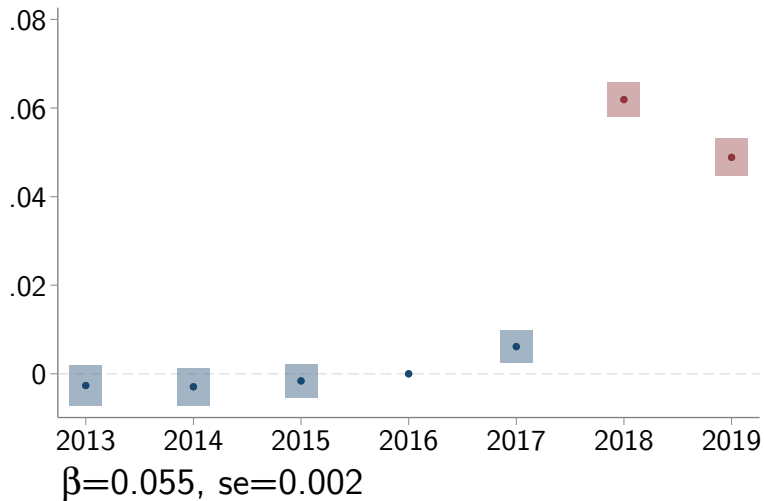
1. Setting
2. Data
3. Empirical Strategy and Results
 - **First Stage: Taxes Paid**
 - Output Distortions: Investment, Payrolls, Pre-Tax Profits
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Marginal Tax Rate (MTR) Wedge τ_f



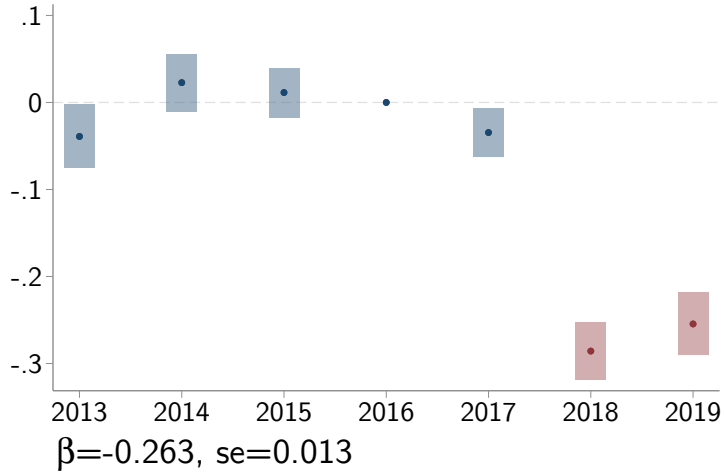
- MTR of C corps falls by 4.2 p.p. relative to S corps after TCJA
- Slight dip in 2017 reflects income shifting by firms to minimize tax burdens (see paper appendix)

Log Net-of-Tax Rate ($1 - \tau_f$)



- Net-of-tax rate of C corps increases by 5.5% relative to S corps

Taxes Paid



- C corps pay 26% less in tax relative to S corps
- Estimated via PPML to include firms paying zero tax

First Stage

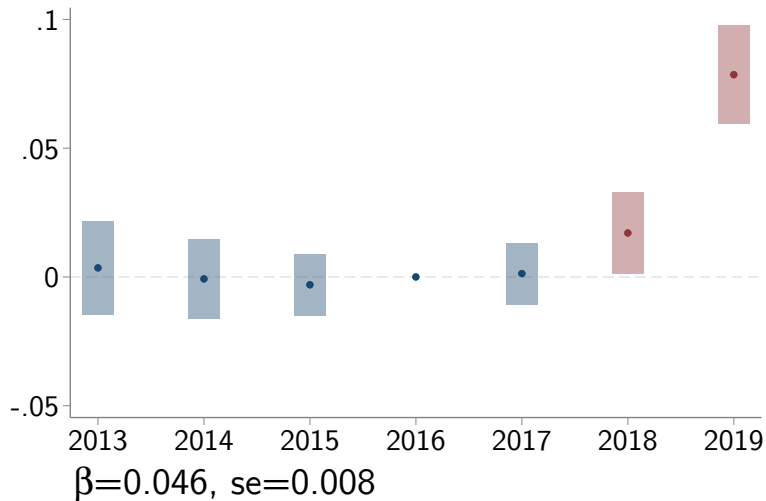
	(1) τ_{ft}^{MTR}	(2) $\ln(1 - \tau_{ft}^{MTR})$	(3) Tax Paid
$C_f \times \text{Post}_t$	-0.042*** (0.001)	0.055*** (0.002)	-0.263*** (0.013)
2016 Outcome Mean	0.23	0.77	916,718
Firm FE	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes
N	231,360	231,360	231,360
N Firms	49,235	49,235	49,235

- Strong first-stage: clear differential impact on C vs. S firms

Roadmap

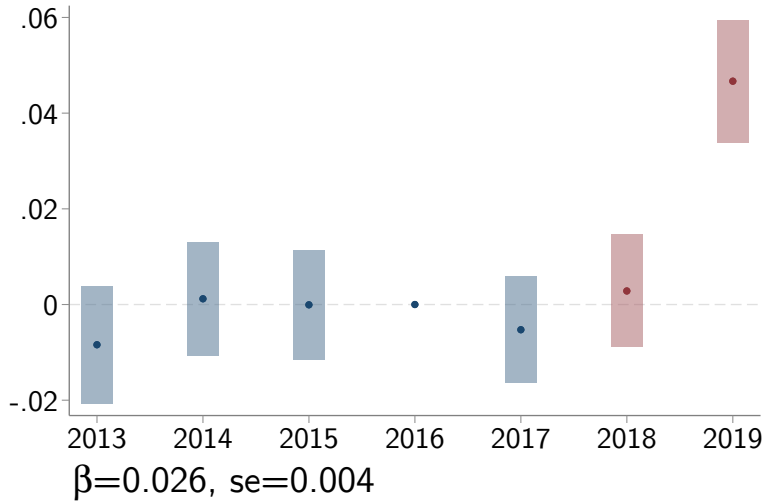
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Log Capital



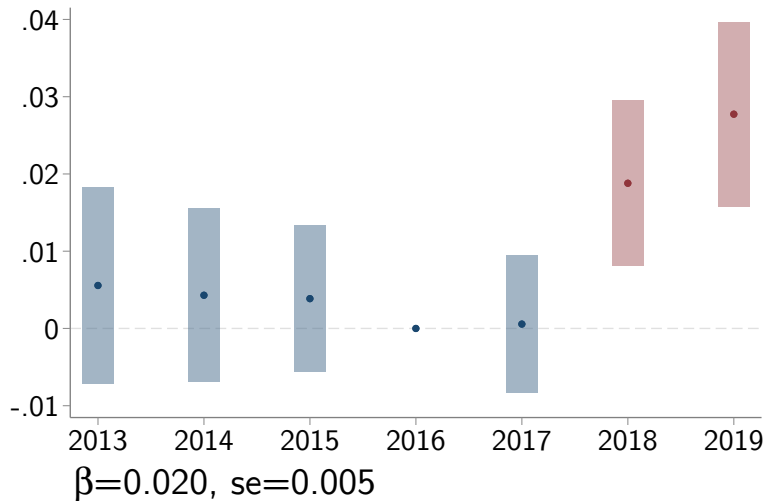
- C corps increase tangible, depreciable capital by 4.6% relative to S corps

Net Investment Rate



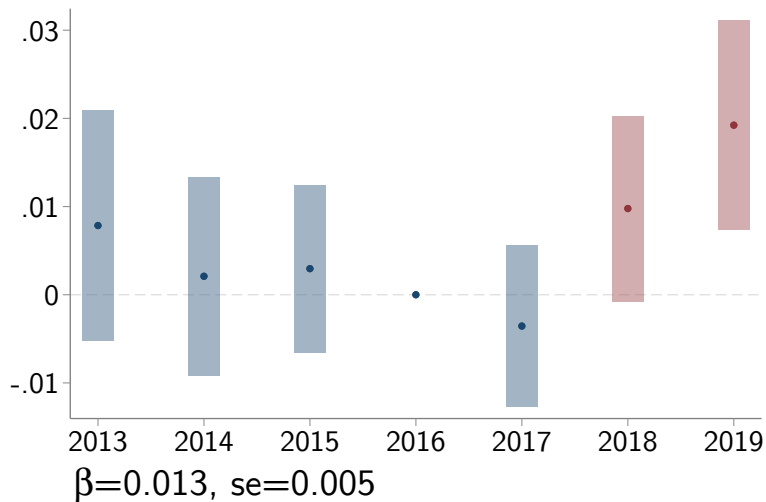
- Net investment rate of C corps increases by 2.6 pp of lagged capital relative to S corps

Log Payroll



● C corps increase payrolls by 2% relative to S corps

Log Employment



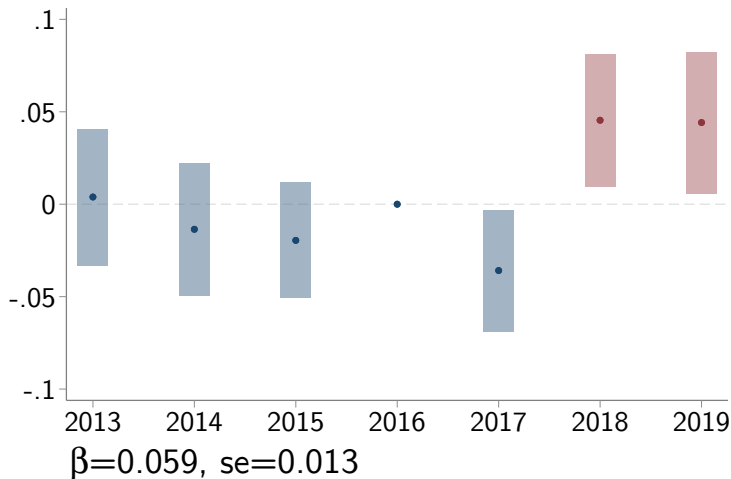
● C corps increase employment by 1.3% relative to S corps

Investment and Payroll Elasticities

	(1) $I_{ft}/K_{f,t-1}$	(2) $I_{ft}/K_{f,t-1}$	(3) $\ln(\bar{w}_{ft}L_{ft})$	(4) $\ln(\bar{w}_{ft}L_{ft})$
$C_f \times \text{Post}_t$	0.026*** (0.004)		0.020*** (0.005)	
$\ln(1 - \tau_{f,t})$		0.449*** (0.070)		0.369*** (0.086)
2016 Outcome Mean	0.07	0.07	23.4	23.4
Firm FE	Yes	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes	Yes
First-Stage F		1,245		1,308
N	204,411	204,411	231,360	231,360
N Firms	42,711	42,711	49,235	49,235

- Key takeaway: Positive responses of real outcomes

Log Taxable Income (Pre-Tax Profits)



- Taxable income (pre-tax profit) increases by 5.3% in C corps relative to S corps
- Dip in 2017 again reflects intertemporal income shifting (see paper appendix)

Elasticity of Taxable Income (ETI)

Estimate via 2SLS: Instrument firm tax rate with $C \times Post$ dummy

	(4) ln(Tax Inc)	(5) 1(Tax Inc>0)	(6) ln(Tax Inc)
$C_f \times Post_t$	0.059*** (0.013)	0.001 (0.004)	
$\ln(1 - \tau_{f,t})$			0.697*** (0.158)
2016 Outcome Mean	2.8	0.75	2.8
Firm FE	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes
First-Stage F			3,093
N	167,773	231,360	167,773
N Firms	39,032	49,235	39,032

- Elasticity: ≈ 0.70
- Larger elasticity $\implies$ larger distortion $\implies$ larger potential gains from tax cuts

Tax Evasion or Changes in Real Resources?

Data show some signs of profit shifting, but also clear evidence of real responses:

- Tax base shifting? Switching C $\leftrightarrow$ S status is limited [▶ results](#)
- Reclassification of wages as profit? Excluding single-owner S corps $\varepsilon \approx 0.76$
- No international profit shifting (b/c sample excludes multinationals)
- Intertemporal shifting? $\varepsilon \approx 0.70$ excluding 2017/18

Not just shifting: higher K and L indicate deployment of real resources

Roadmap

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- First Stage: Taxes Paid
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- **Distribution: After-Tax Profits, Payouts, Workers' Earnings**

4. Mechanisms

5. Distributional Analysis

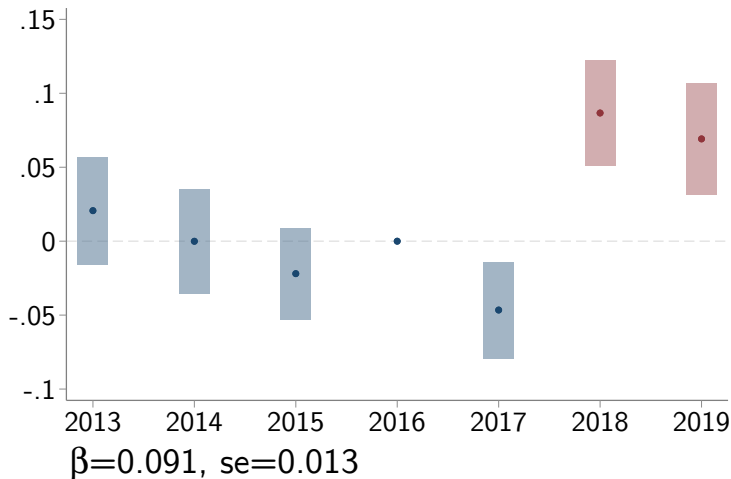
Distributional Effects

Consider several factor groups:

- Firm owners (shareholders)
- Workers (low-paid, high-paid, executives)

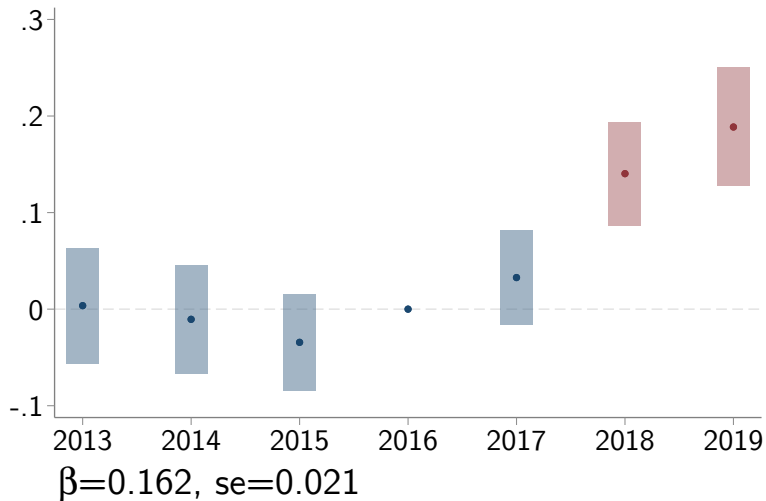
1. Changes in τ induce changes in $K, L, w, \pi \implies$ distributional effects
2. Non-classical channels, such as rent-sharing, may also matter Card '22

After-Tax Profits



- C corp after-tax taxable income increases by 9.1% relative to S corps after TCJA
- As before, dip in 2017 again reflects intertemporal income shifting (see appendix)

Log Dividends



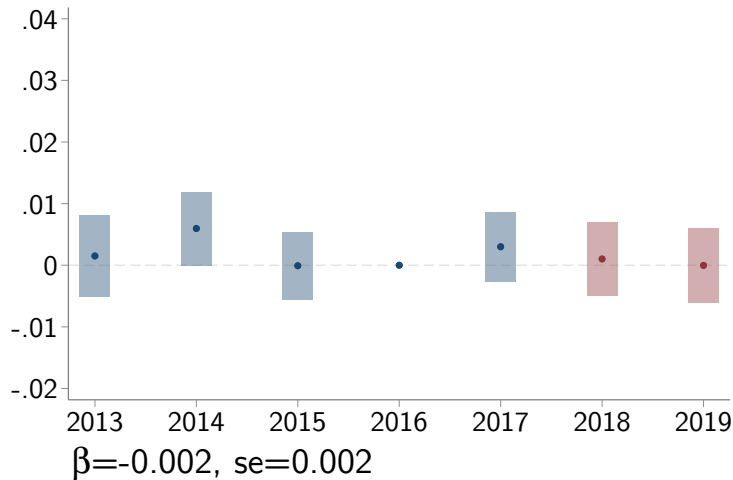
- C-corps increase dividend payouts to shareholders by 16% relative to S corps after TCJA

After-Tax Profit and Payout Elasticities

	(1) ln(Dividends)	(2) ln((1 - τ_{ft})O.Pft)	(3) ln((1 - τ_{ft}) π)	(4) ln((1 - τ_{ft}) π)
$C_f \times \text{Post}_t$	0.162*** (0.021)	0.029*** (0.006)	0.091*** (0.013)	
ln(1 - $\tau_{f,t}$)				1.064*** (0.156)
2016 Outcome Mean	6.3	47.4	4.1	4.1
Firm FE	Yes	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes	Yes
First-Stage F				3,098
N	101,544	228,137	166,197	166,197
N Firms	22,921	48,708	38,833	38,833

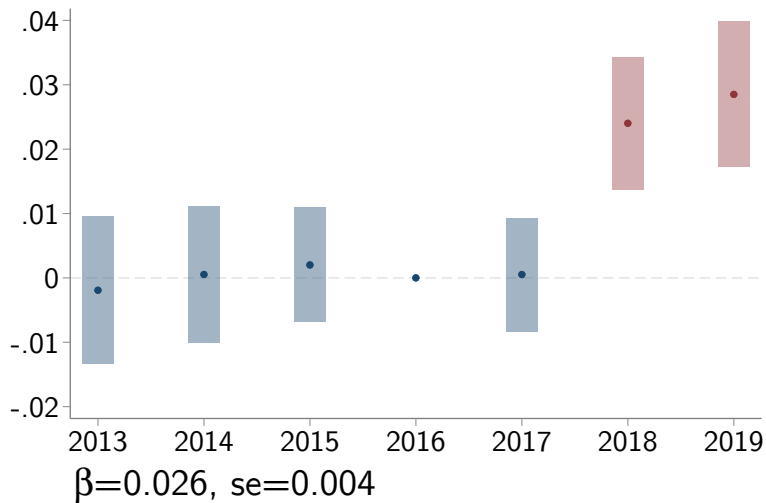
- Sharp increase in post-tax profits implies shareholders bear share of incidence

Log Median Worker Earnings



- No differential trend in log earnings growth for median workers at C vs. S firms

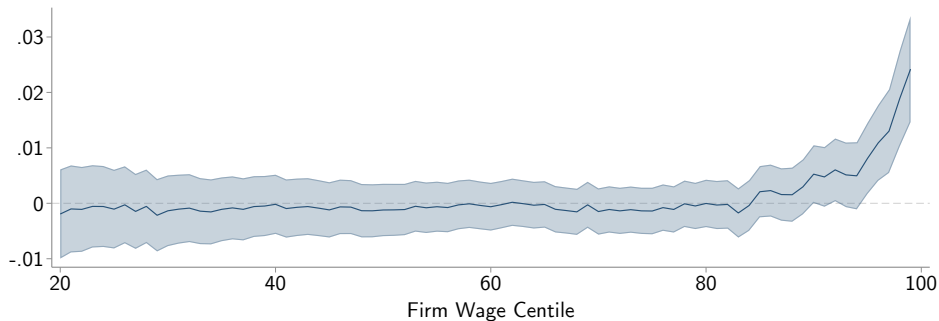
Log Top 5 Worker Earnings



- Earnings of top 5 workers at the firm increase by 2.6% in C relative to S corps

Impacts on Firm Wage Distribution

- Plot β^{post} coefficients on log earnings across centiles of the within-firm distribution:



- No differential effect for workers below the ≈ 90 th percentile; gains increasing at the top

Workers' Log Earnings

	(1) $\ln(\bar{w})$	(2) $\ln(w^{50})$	(3) $\ln(w^{95})$	(4) $\ln(w^{exec})$
$C_f \times \text{Post}_t$	0.007*** (0.002)	-0.002 (0.002)	0.012*** (0.003)	0.026*** (0.004)
2016 Outcome Mean	63,158	46,581	170,740	374,595
ε	0.130	-0.027	0.224	0.466
s.e.	0.040	0.039	0.057	0.079
Firm FE	Yes	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes	Yes
N	231,360	231,360	231,360	231,360
N Firms	49,235	49,235	49,235	49,235

- Clear increase in within-firm earnings dispersion

What Drives Higher Pay at the Top?

- Measure executive pay as log earnings of top 5 employees
- Does higher pay reflect stronger firm performance?

	(1)	(2)	(3)	(4)
	$\ln(w^{exec})$	$\ln(w^{exec})$	$\ln(w^{exec})$	$\ln(w^{exec})$
$C_f \times \text{Post}_t$	0.026*** (0.004)	0.020*** (0.004)	0.022*** (0.004)	0.026*** (0.004)
Firm FE	Yes	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes	Yes
Controls X_{ft}	None	Sales	Profit	Rel. Sales
N	231,360	231,360	231,360	231,360
N Firms	49,235	49,235	49,235	49,235

- Coefficient shrinks by at most $\approx 25\%$ controlling for performance measures
- Plausible interpretation: $\approx 1/4$ pay increase due to performance, $3/4$ to rent sharing

Log Earnings of Incumbents vs. New Hires

	Incumbents		New Hires	
	(1) $\ln(w^{50})$	(2) $\ln(w^{95})$	(3) $\ln(w^{50})$	(4) $\ln(w^{95})$
$C_f \times \text{Post}_t$	0.000 (0.002)	0.020*** (0.003)	-0.004 (0.005)	0.002 (0.006)
2016 Outcome Mean	67,274	234,160	28,293	86,736
Firm FE	Yes	Yes	Yes	Yes
Industry-Size-Year FE	Yes	Yes	Yes	Yes
N	227,190	227,190	226,371	226,371
N Firms	48,171	48,171	48,702	48,702

- Gains concentrated among highly-paid incumbents
- Broadly consistent with rent-sharing literature (e.g., Card 2023; Kline et al. 2019)

General Equilibrium Effects in the Labor Market

- DiD design identifies partial equilibrium, firm-level elasticities
- If workers are highly substitutable and work in competitive labor markets, time fixed effects may absorb common wage gains
- Motivates analysis exploiting differential exposure to tax changes across markets

Market-Level Analysis

- Aggregate outcomes by markets, defined as states or state-sector pairs
- Instrument tax change with sales-weighted market share of C-corps
- Most stringent FE: state-sector, sector-year, and state-year

Estimate:

$$\ln w_{mt} = \varepsilon^m \ln(1 - \tau_{mt}^{MTR}) + \alpha_m + \gamma_t + X'_{mt}\lambda + \epsilon_{mt}$$

Instrumented with:

$$\ln(1 - \tau_{mt}) = \zeta(C_m \times Post_t) + \delta_m + \kappa_t + X'_{mt}\rho + \nu_{mt}$$

Market-Level Results

- Outcome is log median earnings in market m year t

	(1)	(2)	(3)	(4)
	lw50	lw50	lw50	lw50
$\ln(1 - \tau_{mt})$	-0.067 (0.103)	0.048 (0.089)	0.036 (0.089)	-0.018 (0.087)
Market	State-Ind	State-Ind	State	State
Market FE	Yes	Yes	Yes	Yes
State-Year FE	Yes	Yes	No	No
Ind-Year FE	Yes	Yes	No	No
Year FE	No	No	Yes	Yes
Controls	No	Yes	No	Yes
First-Stage F	26	27	24	29
N	6,156	6,156	357	357

- Small elasticities, can reject $> \approx 0.25$

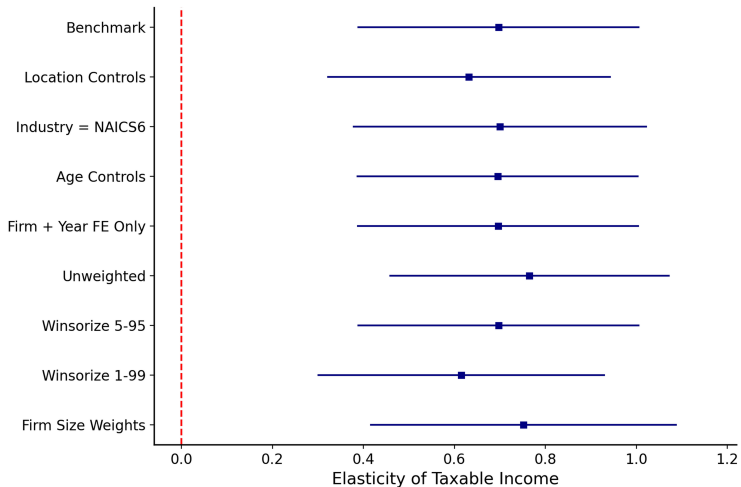
Reallocation of Workers Across Sectors

- Use W-2 data to compute share of new hires moving from each sector

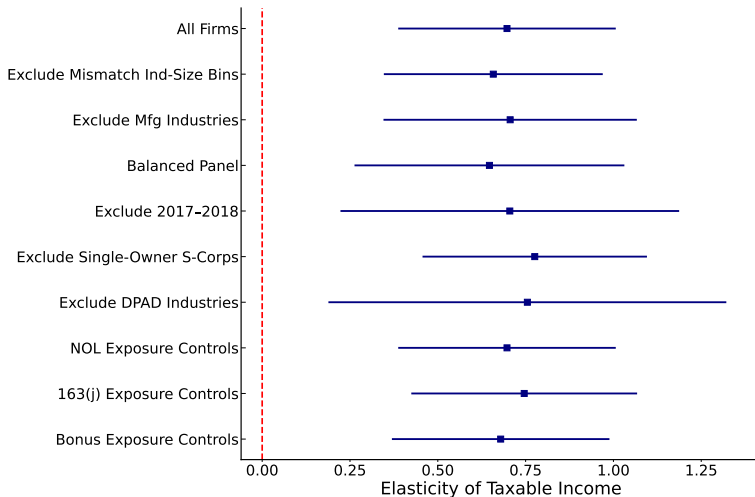
	(1) Same-Same	(2) S-C	(3) C-S	(4) Noncorp-Corp	(5) NoW2-Corp
$C_f \times \text{Post}_t$	-0.019*** (0.002)	0.009*** (0.001)	-0.006*** (0.001)	0.001 (0.002)	0.002 (0.002)
Firm FE	Yes	Yes	Yes	Yes	Yes
Industry-Size FE	Yes	Yes	Yes	Yes	Yes
R2	0.45	0.68	0.72	0.38	0.48
N Firms	49,235	49,235	49,235	49,235	49,235
N	231,360	231,360	231,360	231,360	231,360

- Small but statistically significant reallocation of workers into C corp sector
- No discernable net employment gains (fixed L)

Robustness: Alternate Specifications



Robustness: Alternate Samples



- Results robust across specifications and samples; much more in paper appendix

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4. Mechanisms
5. Distributional Analysis

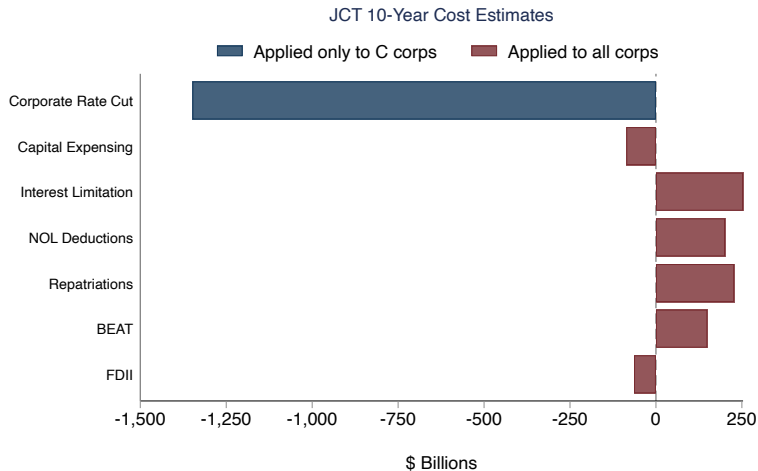
Mechanisms

Investigate three mechanisms:

1. Other TCJA provisions
2. Liquidity channel (income effect)
3. User cost of capital (price effect)

1. Other TCJA Provisions

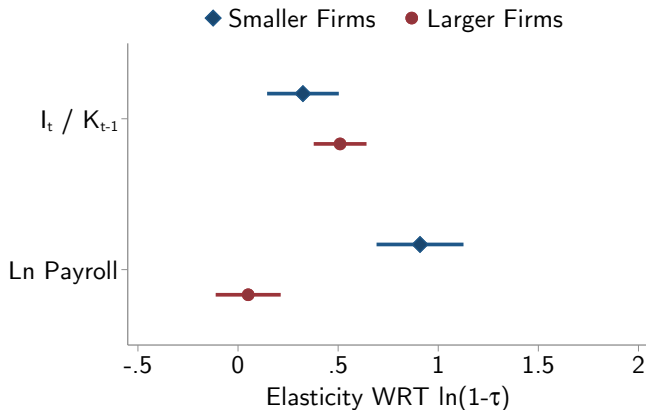
Other TCJA changes were comparatively small and applied to both C and S firms



- + results robust to controls / sample exclusions for other policy changes (see appendix)

2. Are Effects Driven by Borrowing Constraints?

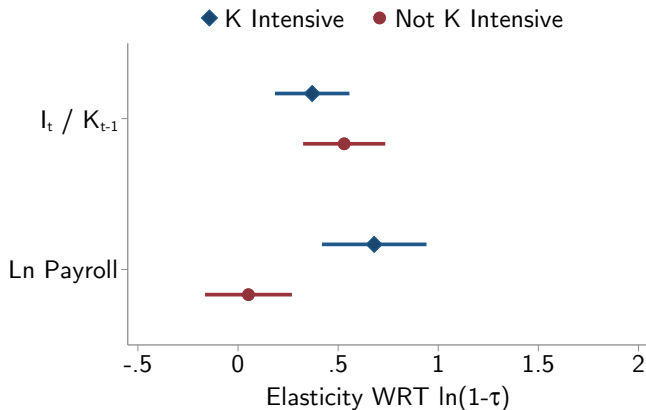
Split sample by pre-TCJA median employment:



- Smaller firms respond more strongly specifically on payroll margin
- Rationalized if capital costs can be collateralized but labor costs cannot

3. Are Effects Driven by Changes in the Cost of Capital?

Split sample by median capital intensity (K/Y ratio):



- Larger payroll response in capital-intensive industries
- Rationalized if stronger capital-labor complementarity in capital-intensive industries

Stylized Corporate Tax Model

- Firms maximize after-tax profits:

$$\max \pi = \underbrace{F(K, L)(1 - \tau)}_{\substack{\text{net-of-tax} \\ \text{revenues}}} - \underbrace{wL(1 - \tau)}_{\substack{\text{fully deductible} \\ \text{labor costs}}} - \underbrace{rK(1 - \theta\tau)}_{\substack{\text{partly deductible} \\ \text{capital costs}}}$$

- τ is the corporate income tax rate, $\theta \in [0, 1]$ is an expensing parameter

FOC:

$$\underbrace{\frac{\partial F}{\partial K}}_{MPK} = \underbrace{\frac{(1 - \theta\tau)}{1 - \tau} r}_{\text{cost of capital}} \equiv \phi$$

- Corp tax distorts investment because capital costs not fully deductible

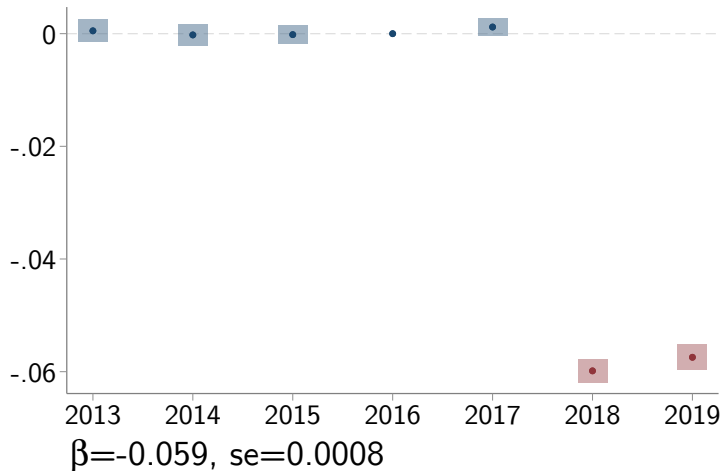
Measuring the Cost of Capital

Hall and Jorgenson (1964):

$$\phi = \left(r^d (1 - \tau^d) \alpha + r^e (1 - \alpha) - \rho + \delta \right) \cdot \left(\frac{1 - \lambda \theta \tau^c}{1 - \tau^c} \right)$$

- Accounts for:
 - deductability of debt, losses, and bonus investment
 - heterogeneous capital structures and expensing exposure
 - heterogeneous depreciation and debt finance costs
- Parameters empirically estimated in the data at the firm or industry level (see appendix)

Log Cost of Capital



- Elasticities WRT user costs and/or effective MTRs $\implies$ similar conclusions
- Implied semi-elasticity of I_t/K_{t-1} WRT $\phi \approx -0.42$

Roadmap

1. Setting
2. Data
3. Empirical Strategy and Results
4. Mechanisms
5. **Distributional Analysis**
 - Two standards: equity and efficiency
 - Benchmark corp tax against other tax instruments

Factor Incidence

- Compute incidence as shares of total income changes

Suarez-Serrato and Zidar '16; Fuest et al. '18

$$I^{w^j} = \frac{w^j L^j \varepsilon^{w(j)}}{\pi \varepsilon^K + \sum_j w^j L^j \varepsilon^{w(j)}}$$

- Estimate these parameters empirically from the event studies

Distributional Effects

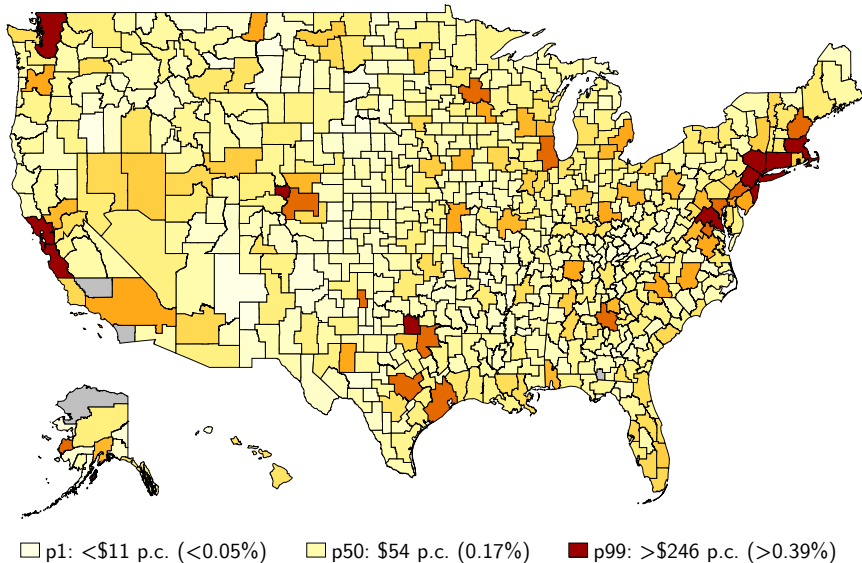
	(1)	(2)	(3)
	C Corps	S Corps	All Corps
	% (se)	% (se)	% (se)
Panel A: By Factor			
Capital	60 (7)	80 (4)	69 (6)
Executives	8 (1)	9 (2)	9 (1)
High-Paid Workers	32 (5)	11 (2)	22 (4)
Low-Paid Workers	0 (4)	0 (2)	0 (3)
	、 /	、 /	、 /

Distributional Effects

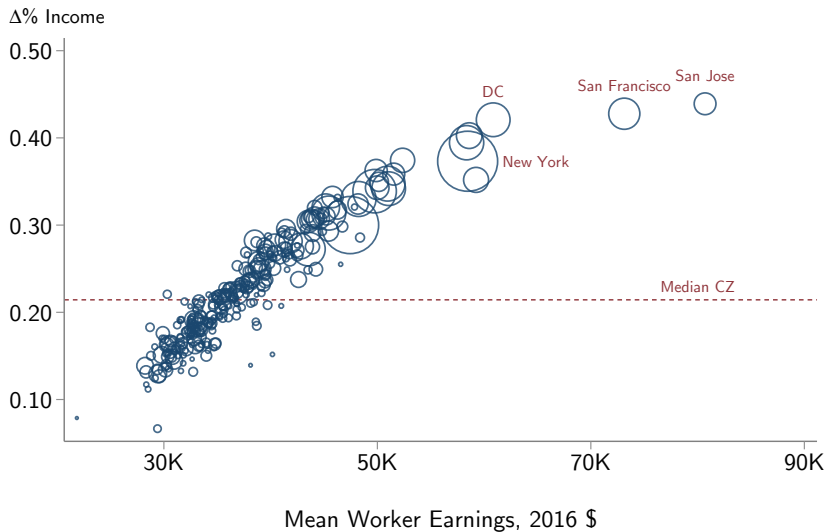
	(1) C Corps	(2) S Corps	(3) All Corps
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Low-Paid Workers	0 (4)	0 (2)	0 (3)
Panel B: By Income			
Top 1%	33 (3)	63 (2)	40 (2)
91-99%	55 (3)	27 (2)	46 (2)
Bottom 90%	13 (4)	10 (4)	14 (3)

- Distributional incidence estimated using K ownership data from [Fed SCF \(2018\)](#)
- $\approx 87\%$ of benefits flow to top 10% of distribution

Income Gains Are Spatially Concentrated



Gains Correlated with Initial Income



Marginal Value of Public Funds

Hendren and Sprung-Keyser (HSK 2020):

$$\text{MVPF} = \frac{1}{1 - \frac{\tau^*}{1 - \tau^*} \varepsilon^\pi}$$

where τ^* is inclusive of both corporate tax + payout taxes, $\tau^* = (1 - \tau^c)(1 - \tau^p)$

Using $\varepsilon^\pi = 0.7$, averaging pre / post $\tau^c = \{0.35, 0.21\}$, effective $\tau^p \approx 2.5\%$:

$$\text{MVPF} \approx 1.47$$

Benchmarking: HSK estimate MVPFs for individual US tax changes:

- 1993 individual tax cut: ≈ 1.83
- 2013 individual tax increase: ≈ 1.16

Conclusion

Takeaways:

- Corp tax cuts generate real increases in output
- $\approx$ \$1.47 gain in private income per \$1 of foregone corp tax revenue
- $\approx$ 87% of gains flow to top 10% of income distribution

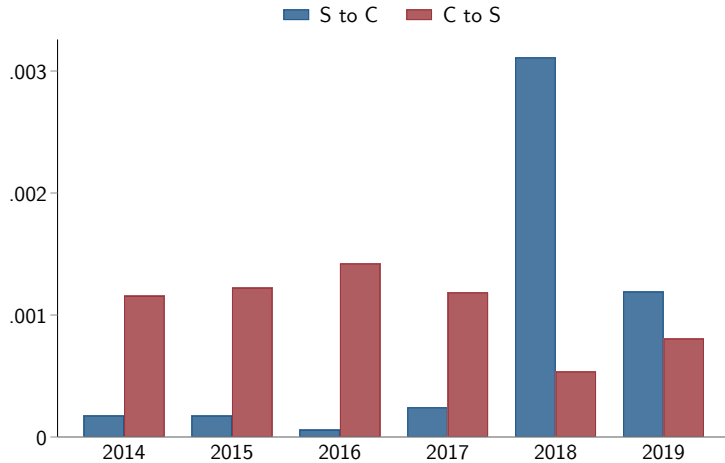
For Future Research:

- Long-run impacts? Top 0.001% firms?
- Consumer prices, entrepreneurship, international tax competition, public good provision, redistribution, debt dynamics, social externalities, political economy...

Appendix Materials

Switchers Are Rare and Economically Small

Switchers of Profits / All Profits



▸ sample

▸ shifting

Distributional Incidence

- Estimate distributional incidence:

$$I^g = \frac{w^g L^g \epsilon^{w(g)} + \omega^g (rK\epsilon^r + \epsilon^\pi \pi)}{\sum_g w^g L^g \epsilon^{g(k)} + rK\epsilon^r + \epsilon^\pi \pi}$$

- g is a slice of the earnings distribution (top 1%, 91-99%, bottom 90%)
- ω^g is their share of capital ownership according to [Federal Reserve SCF \(2018\)](#)

C and S: Common Elasticities WTR Tax Shocks

- Replication of Zwick and Mahon (2017), elasticity of investment WTR bonus

