Research [in] Brief

Why Didn’t Cutting Corporate Taxes Stimulate Business Investment as Expected?

Primary issue

One anticipated effect of the 2017 Tax Cuts and Jobs Act was to stimulate businesses’ investment in things to help increase sales or profit margins in the future—new technology, research and development, machines, land, or buildings. But that investment grew more slowly after the tax reform than before it.

Key findings

The corporate tax cuts that were part of the Tax Cuts and Jobs Act included two provisions. One was a permanent cut in the corporate tax rate. The second was a change in how corporations are taxed on the earnings they make overseas.

In practice, the cut in the corporate tax rate may have discouraged businesses from investing more. But changes in the way earnings made overseas are taxed likely had the opposite effect, stimulating businesses’ investment.

The bottom line

Because the two provisions of the corporate tax cuts work in opposite directions, the initial impact of the cuts has so far been small. Going forward, the changes created by the tax reform are likely to keep businesses from investing as much as they would have without the reform.

Want to find out more? Read “The Effect of the 2017 Tax Reform on Investment” at **clevelandfed.org/ec202017**.