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Finance and Economics Discussion Series: A Retrospective Evaluation of the Effects of Temporary Partial Expensing

By Darrel Cohen

BiblioGov. Paperback. Book Condition: New. This item is printed on demand. Paperback. 30 pages. Dimensions: 9.7in. x 7.4in. x 0.1in. This paper examines how business investment responded to temporary partial expensing, first enacted in 2002 and expanded in 2003. In principle, partial expensing boosted the incentive to invest which should have had a discernable impact on spending. However, the tax changes did not occur in a vacuum, so it is challenging to isolate their impact. Our empirical approach exploits a feature of the tax change which, under certain assumptions, allows us to cleanly estimate its impact. Specifically, partial expensing provided relatively generous tax treatment for long-lived assets. We use this insight in order to construct a difference-in-difference estimator of the tax effects. In addition, the standard model of investment with capital adjustment costs predicts a run up in investment spending prior to expiration and a pothole just after. Our examination of the details of expenditure patterns before, during, and after partial expensing using both monthly and quarterly data suggests considerable ambiguity as to whether the models predictions were borne out. In addition, anecdotal evidence provides only limited support for the effectiveness of temporary partial expensing. This item ships from La Vergne, TN....



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