The Effects of Tax Cut Jobs Act (TCJA) on Corporate Financing Activities

Peter Harris and Samuel Kohn, New York Institute of Technology, School of Management, Accounting and Finance Department, New York, USA

Abstract

The Tax Cut Jobs Creation Act (TCJA) passed in December 2017 was the first tax overhaul in the US tax system since 1986. The TCJA is generally quite beneficial to US tax paying entities and will result in a lower tax liability for most corporations. For starters, the corporate tax rate has been set at single 21% rate of taxable income, which will result in a lower tax rate for most; especially when considers a 35% effective tax rate was the highest prior to TCJA. The tax advantages of Dividends and long term capital gains will remain intact.

The TCJA will have an effect on the way corporations and other business entities consider financing decisions; which include debt issuance and stock issuance. Under pre TCJA, there was a clear advantage to debt issuance as the interest paid was tax deductible at a maximum 35% rate. Under TCJA, interest is still tax deductible but is now limited to 70% of Income before Depreciation, Amortization, interest and tax expense (EBITDA). Also, its benefit will be less given a decrease of the tax rate from 35% to 21%.

Our paper will investigate how companies have reacted to TCJA in terms of their financing decisions. Our hypothesis is that companies are now issuing more stock and less debt in their financing decisions. Our research will sample 50-75 US publically traded companies to see the implications of TCJA on corporate financing decisions.