

Investment and Employment Responses to State Adoption of Federal Accelerated Depreciation Policies

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Introduction

During the 2000s, the U.S. federal government

1. enacted **bonus depreciation**
2. increased **Section 179** expensing limitations

Both policies significantly reduced the present value costs of capital expenditures

→ provided a federal tax incentive intended to stimulate investment (and employment)

When these federal policies were enacted/enhanced,

Many U.S. states responded by

- ▶ fully **adopting** federal bonus depreciation and/or
- ▶ fully **conforming** to federal Section 179 limitation

Other states

- ▶ partially altered their treatment of tax depreciation of capital assets OR
- ▶ left their treatment unaltered

Project Overview

This project uses

1. this state-level variation in response to the federal policies
2. industry-by-state level data from the Annual Survey of Manufacturers and
3. difference-in-difference methodology

to **Estimate Investment and Employment Impacts of both State-level Bonus Depreciation Adoption and Section 179 Conformity**

Findings

- ▶ both policies have a large and significant impact on investment
- ▶ the effect of each policy is blunted as the other is made more generous
- ▶ neither policy affects employment, bonus affects salaries

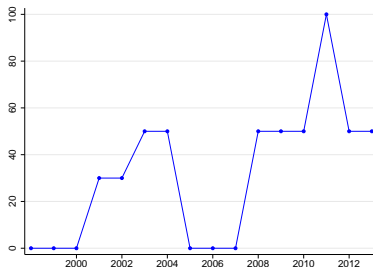
These results have implications for state as well as federal policymakers and may provide new insights into effectiveness of federal bonus depreciation and Section 179

Bonus Depreciation

- ▶ Allows a “bonus” percentage of investment costs to be deducted from taxable income in the first year
- ▶ Stimulates investment by **decreasing the present value cost of investment**. Decrease depends on asset life, depreciation method, firm’s discount rate
- ▶ Federal **Bonus Depreciation** first enacted 2001, part of JCWA 2002

Figure: Federal Bonus Rate over time

For Qualifying Assets Purchased		Bonus
After	Before	
09/10/2001	05/06/2003	30%
05/05/2003	01/01/2005	50%
12/31/2004	01/01/2008	0%
12/31/2007	09/09/2010	50%
09/08/2010	01/01/2010	100%
12/31/2011	01/01/2015	50%

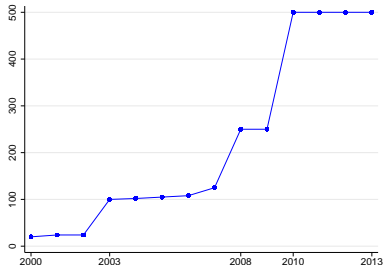


Section 179

- ▶ **Section 179** of the U.S. Internal Revenue code allows taxpayers to “expense” the cost of new capital assets for tax purposes
- ▶ **maximum deduction: “Section 179 Allowance,”** has increased significantly
- ▶ deduction phases out dollar-for-dollar after “Section 179 Limit” is reached
- ▶ akin to 100% bonus for annual capital expenditures under the allowance

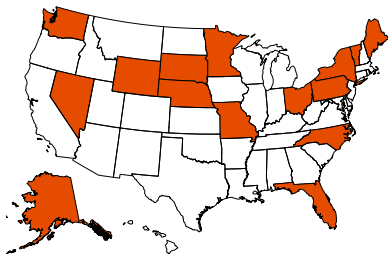
Figure: Federal Section 179 Allowance 2000–2011

Year	Limit (\$ Thousands)
2000	20
2001–2002	24
2003	100
2004	102
2005	105
2006	108
2007	125
2008–2009	250
2010–2011	500



Mapping State Adoption

Figure: Bonus Depreciation Policy Changers



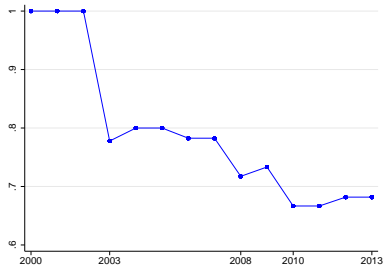
Notes: Figure 4 depicts which states changed their adoption of the policy at some point during either bonus episode. In total, 15 states changed their adoption policy.

- ▶ non-negligible number of adopters
- ▶ significant geographic variation in adoption (especially during first episode)
- ▶ within state policy variation
- ▶ average tax decrease from 100% bonus adoption $\approx 1.2\%$
 - ▶ State Bonus Example

State Conformity to Federal Section 179 Allowance

Figure: % of States Conforming to Federal 179 Allowances

Year	State Conformity (%)
2000–2002	97.8
2003	75.6
2004–2005	77.8
2006	76.1
2007	76.1
2008	69.6
2009	71.11
2010–2011	64.44



- ▶ Largest drops in 2003, 2008, 2010 when allowances were increased significantly
- ▶ In 2011, more than 60% of states were conforming to the \$500,000 federal allowance

Are Bonus Adopters and Section 179 Conformers the same states?

- ▶ Not all Section 179 non-conformers are bonus rejecters
- ▶ Significant variation in bonus adoption among 179 conforming states
- ▶ Overlap, partial adoption, time varying federal levels allows for joint estimation

Table: State Adoption of Bonus and Conformity to 179

2004			
	179 Conformers	179 Non-Confs	Total
Bonus Rejecter	22	9	31
Bonus Adopter	14	0	14
Total	36	9	45
2010			
	179 Conformers	179 Non-Confs	Total
Bonus Rejecter	18	15	33
Bonus Adopter	12	0	12
Total	30	15	45

Empirical Design & Identification

Separately estimating either policy leads to potentially downward biased estimates
 → joint estimation of both policies

Empirical Design

$$\begin{aligned} \ln(\text{capx})_{jst} = & \beta_0 + \beta_1[\text{Bonus}_t \times \text{State Adoption}_{st}] + \beta_2[\text{Fed 179}_t \times \text{State Conformity}_{st}] \\ & + \beta_3[[\text{Bonus}_t \times \text{State Adoption}_{st}] \times [\text{Fed 179}_t \times \text{State Conformity}_{st}]] \\ & + \mathbf{X}'_{st}\boldsymbol{\gamma} + \sigma_t + \nu_{js} + \zeta_{jt} + \psi_s + \epsilon_{jst}. \end{aligned}$$

- ▶ DD empirical design; carried out using OLS regression
- ▶ DD terms: $\text{Bonus}_t \times \text{State Adoption}_{st}$, $\text{Fed 179} \times \text{State Conformity}_{st}$
- ▶ β_1 : percentage increase in capx/emp from full adoption of 100% federal bonus
- ▶ β_2 : percentage increase in capx/emp from \$100,000 increase in 179 allowance
- ▶ β_3 : decrease in β_1 given a one unit increase in Section 179, vice versa

Empirical Design & Identification

Identification

$$\begin{aligned} \ln(\text{capx})_{it} = & \beta_0 + \beta_1 [\text{Bonus}_t \times \text{State Adoption}_{st}] + \beta_2 [\text{Fed 179}_t \times \text{State Conformity}_{st}] \\ & + \beta_3 [[\text{Bonus}_t \times \text{State Adoption}_{st}] \times [\text{Fed 179}_t \times \text{State Conformity}_{st}]] \\ & + \mathbf{X}'_{st} \boldsymbol{\gamma} + \sigma_t + \nu_{js} + \zeta_{jt} + \psi_s + \epsilon_{jst}. \end{aligned}$$

- ▶ with industry \times year FE, identification: industry in adopting state vs. the same industry in a rejecting state pre/post policy change
- ▶ key assumption: policies are independent of other state-by-year other
- ▶ attempt to minimize violations by including time-varying state characteristics, state-linear time trends
- ▶ with state controls and trends, key assumption becomes: the policies that are independent of other state-by-year shocks that are unrelated to the robust set of state political, financial, and productivity controls

Data Sources

Employment and Investment Data

- ▶ Annual Survey of Manufacturers (Census) 1997–2014
- ▶ Observational unit: NAICS 3-digit \times State \rightarrow 21 industries, 883 units

Federal and State Level Bonus and 179 Data

- ▶ State \times Year bonus adoption from Bloomberg BNA
- ▶ State \times Year 179 allowances hand collected

State Characteristics

- ▶ Political: Governor Party, Legislative Makeup (BOS)
- ▶ State Finance: Corp Rate, % Rev from Corp, Budget Gap (BOS)
- ▶ Population & Production: GSP, Pop (BEA, Census)

State Bonus and Section 179 Capital Expenditure Analysis

Table: Investment Impacts of State Bonus and State 179

Dependent Var:	Ln CapEx
Specification	(1)
State Bonus	0.038 (0.036)
State 179	
Bonus 179 Interaction	
Year FE	✓
State Controls, Time Trends	✓
NAICS × Year FE	✓
Adj. R-Square	0.286
State × NAICS Groups	883
Observations	11,987

Notes: Table 5 presents coefficient estimates of the impact of State 179 and State Bonus on Ln CapEx. All specifications include include year fixed effects, State × NAICS fixed effects, state linear time trends, NAICS × Year fixed effects, and a robust set if time-varying state level controls to capture the effect of changes in state politics, productivity, population, and finances. Standard errors are at the state level and are reported in parentheses. Statistical significance at the 1 percent level is denoted by ***, 5 percent by **, and 10 percent by *.

State Bonus and Section 179 Capital Expenditure Analysis

Table: Investment Impacts of State Bonus and State 179

Dependent Var: Specification	ln CapEx	
	(1)	(2)
State Bonus	0.038 (0.036)	
State 179		0.013 (0.009)
Bonus 179 Interaction		
Year FE	✓	✓
State Controls, Time Trends	✓	✓
NAICS × Year FE	✓	✓
Adj. R-Square	0.286	0.286
State × NAICS Groups	883	883
Observations	11,987	11,987

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State Bonus and Section 179 Capital Expenditure Analysis

Table: Investment Impacts of State Bonus and State 179

Dependent Var: Specification	ln CapEx		
	(1)	(2)	(3)
State Bonus	0.038 (0.036)		0.031 (0.037)
State 179		0.013 (0.009)	0.012 (0.009)
Bonus 179 Interaction			
Year FE	✓	✓	✓
State Controls, Time Trends	✓	✓	✓
NAICS × Year FE	✓	✓	✓
Adj. R-Square	0.286	0.286	0.286
State × NAICS Groups	883	883	883
Observations	11,987	11,987	11,987

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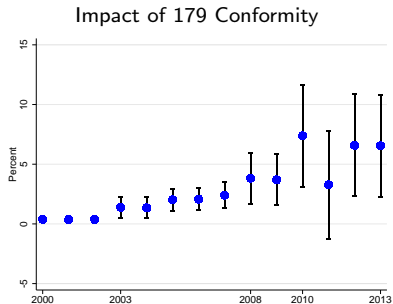
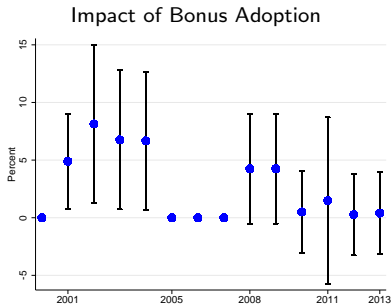
State Bonus and Section 179 Capital Expenditure Analysis

Table: Investment Impacts of State Bonus and State 179

Dependent Var: Specification	ln CapEx			
	(1)	(2)	(3)	(4)
State Bonus	0.038 (0.036)		0.031 (0.037)	0.174** (0.073)
State 179		0.013 (0.009)	0.012 (0.009)	0.020** (0.009)
Bonus 179 Interaction				-0.047*** (0.016)
Year FE	✓	✓	✓	✓
State Controls, Time Trends	✓	✓	✓	✓
NAICS × Year FE	✓	✓	✓	✓
Adj. R-Square	0.286	0.286	0.286	0.286
State × NAICS Groups	883	883	883	883
Observations	11,987	11,987	11,987	11,987

Notes: Table 5 presents coefficient estimates of the impact of State 179 and State Bonus on Ln CapEx. All specifications include include year fixed effects, State × NAICS fixed effects, state linear time trends, NAICS × Year fixed effects, and a robust set if time-varying state level controls to capture the effect of changes in state politics, productivity, population, and finances. Standard errors are at the state level and are reported in parentheses. Statistical significance at the 1 percent level is denoted by ***, 5 percent by **, and 10 percent by *.

Graphical Marginal Effects



Notes: Panel (A) uses estimates presented in Table 5 Specification (4) to predict the investment impact of adopting bonus depreciation at the federal level during the years 2000-2011 assuming the state has adopted the average Section 179 allowances in each year. Panel (B) uses estimates presented in Table 5 Specification (4) to predict the investment impact of conforming to the federal Section 179 allowance level (relative to no allowances) during the years 2000-2011 assuming the state has adopted federal bonus depreciation at the average state rate. Standard errors are computed using the delta method.

Estimated Investment Impact

Table: Marginal Effects

State 100% Bonus Marginal Effects			
Section 179 Level	Marginal Effect	Marginal SE	$\partial \text{Ln Cap}_x / \partial \text{Ln}(1 - \tau)$
\$0	0.174**	(0.073)	7.909
\$100,000	0.127**	(0.059)	5.782
\$200,000	0.080*	(0.047)	3.636
\$300,000	0.034	(0.039)	1.527
\$400,000	-0.013	(0.036)	0.932

State \$500,000 179 Marginal Effects			
Bonus Level	Marginal Effect	Marginal SE	$\partial \text{Ln Cap}_x / \partial \text{Ln}(1 - \tau)$
0%	0.098**	(0.043)	4.432
30%	0.027	(0.046)	1.241
50%	-0.019	(0.054)	-0.088

Notes: Table 7 presents marginal effects of State Bonus and State 179 at various levels of State 179 and State Bonus, respectively.

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Explaining the Estimated Investment Impact

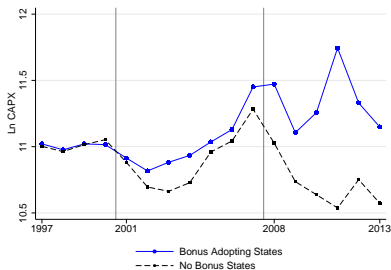
The estimated elasticities are large.

Three relevant points:

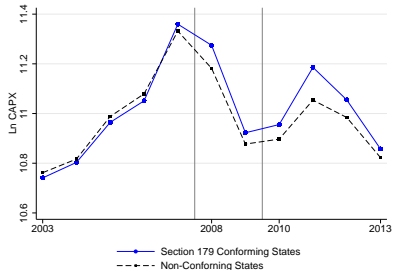
1. In the ballpark of recent, quasi-experimental tax policy estimates
 - ▶ Zwick and Mahon (2016): Federal Bonus $\frac{\partial \text{Ln Capx}}{\partial \text{Ln}(1-\tau)} = 7.2$
 - ▶ Ohrn (2016): Domestic Production Activities Deduction $\frac{\partial \text{Ln Capx}}{\partial \text{Ln}(1-\tau)} = 6.0$
2. Plant level data → estimates pick up both
 - ▶ within-firm-across-plant allocation and re-allocation of investment
 - ▶ within-plant increases in investment
3. Federal Bonus and 179 operate mostly on immobile tax bases.
 - ▶ State-level incentives are often employed to vie for mobile capital

Graphical DD Estimation

Impact of Bonus Adoption



Impact of 179 Conformity



Notes: To create Panel (A), Ln Capx is regressed on State Bonus Adoption interacted with year dummies and Section 179 variables and controls. The coefficient are then centered on the mean Ln Capx trend and normalized prior to policy impact, creating treatment and control estimates. A similar procedure in which Section 179 conformity is interacted with year dummies then added to Ln Capx trends created the Panel (B) graphs. Panel (B) begins in 2003 because virtually no states did not conform prior to 2003.

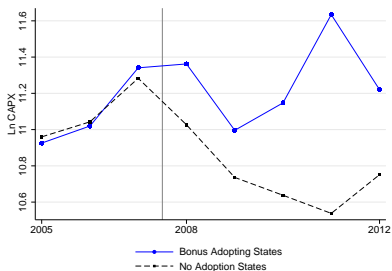
▶ Autor (2003) Style

Graphical DD Bonus Estimation

State Bonus Adoption; Episode 1



State Bonus Adoption; Episode 2



Notes: To create Panels (A) and (B), Ln Capx is regressed on State Bonus Adoption interacted with year dummies and Section 179 variables and controls. The coefficient is then centered on the mean Ln Capx trend and normalized in years prior to policy impact, creating treatment and control estimates.

State Bonus and Section 179 Employment Analysis

Table: Employment Impacts of State Bonus and State 179

Dependent Var: Specification	Ln Emp			
	(1)	(2)	(3)	(4)
State Bonus	0.019 (0.017)		0.021 (0.018)	0.020 (0.032)
State 179		-0.001 (0.007)	-0.002 (0.007)	-0.002 (0.007)
Bonus 179 Interaction				3.0×10^{-5} (0.010)
Year FE	✓	✓	✓	✓
State Controls, Time Trends	✓	✓	✓	✓
NAICS × Year FE	✓	✓	✓	✓
Adj. R-Square	0.691	0.690	0.691	0.690
State × NAICS Groups	933	933	933	933
Observations	12,864	12,864	12,864	12,864

Notes: This table presents coefficient estimates of the impact of State 179 and State Bonus on Ln Emp. All specifications include include year fixed effects, State × NAICS fixed effects, state linear time trends, NAICS × Year fixed effects, and a robust set if time-varying state level controls to capture the effect of changes in state politics, productivity, population, and finances. Standard errors are at the state level and are reported in parentheses. Statistical significance at the 1 percent level is denoted by ***, 5 percent by **, and 10 percent by *.

State Bonus and Section 179 Employment Analysis

Table: Other Employment Impacts of State Bonus and State 179

Dependent Var:	Ln Prod Wrkers	Ln Avg Salary	Ln Avg Wage
Specification	(1)	(2)	(3)
State Bonus	-0.005 (0.036)	0.026*** (0.009)	0.018* (0.010)
State 179	-0.001 (0.008)	0.002 (0.002)	0.003 (0.002)
Bonus x 179	0.006 (0.010)	-0.006** (0.002)	-0.002 (0.003)
Year FE	✓	✓	✓
State Controls	✓	✓	✓
NAICSxYear FE	✓	✓	✓
Adj. R-Square	0.701	0.826	0.778
Groups	922	915	910
Observations	12,778	12,774	12,723

The dependent variable in Specification (1) is the log of production workers. The dependent variable in Specification (2) is the log of average salary which is computed as the total annual payroll divided by the total number of workers. The dependent variable in Specification (3) is the log of average wages which is computed as the total annual wages divided by the total number of production workers. The dependent variable in Specification (4) is the log of value added. The All specifications include Year, State x NAICS, and NAICS x Year Fixed Effects as well as time-varying state controls and state linear time trends. Standard errors are clustered at the state level and are reported in parentheses. Statistical significance at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.

State Corporation Income Tax Splits

Table: Investment and Employment Impacts by State Corporate Tax Rates

Dependent Variable: State Corp Tax Rate Specification	In CapX			In Emp		
	> 0%	> 4.9%	> 6.9%	> 0%	> 4.9%	> 6.9%
	(1)	(2)	(3)	(4)	(5)	(6)
State Bonus	0.174** (0.073)	0.137 (0.085)	0.142 (0.089)	0.003 (0.024)	0.012 (0.027)	-0.017 (0.029)
State 179	0.020** (0.009)	0.013 (0.009)	0.007 (0.015)	-0.000 (0.004)	-0.003 (0.005)	-0.002 (0.011)
Bonus 179 Interaction	-0.047*** (0.016)	-0.033* (0.017)	-0.036 (0.022)	-0.000 (0.006)	-0.001 (0.007)	0.009 (0.010)
Adj. R-Square	0.286	0.267	0.273	0.705	0.684	0.648
State x NAICS Groups	883	759	400	933	806	433
Observations	11,987	9,502	4,066	12,864	10,253	4,426

Notes: All specifications present estimates of the interaction regression model and include time and NAICS x Year fixed effects, state-specific NAICS fixed effects, as well as state time-varying controls. The dependent variables in Specifications (1)–(3) is the log of capital expenditures. The dependent variable in Specifications (4)–(6) is the log of employees. Specifications (1)–(3) and (4)–(6) progressively limit the investment then employment analysis to states with higher corporate tax rates. Standard errors are clustered at the state-industry-state level. Statistical significance at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.

- ▶ Assuming no reallocation into states with high corporate income taxes
→ only 20% of investment response to bonus and as much 65% of investment response to 179 is due to reallocation of investment across states lines

Selection Bias

The states that adopt federal bonus rates and federal Section 179 allowance levels could potentially be very different than those states that do not. This **selection bias** may be driving the estimated effects of adoption.

To combat selection bias

1. Balancing tests are performed [▶ B Tests](#)
2. Characteristics that are different between adopter and other are identified
3. Analysis is repeated on subsamples of only most likely to adopt states

[▶ Sum Regs](#)

This method creates more comparable “treatment” and “control” group states in terms of the identified characteristics

The state bonus and state 179 point estimates are generally stable but not statistically significant across subsample specifications.

Conclusion

Empirical Results

- ▶ State adoption of both bonus depreciation and Section 179 both have large and significant impacts on investment
- ▶ The generosity of either policy undermines the effect of the other
- ▶ Adoption of neither policy affects employment; bonus increases salaries
- ▶ 20–65% of the response was due to reallocation

Lesson to be learned

- ▶ Small investment incentives can have a big impact in a competitive environment
- ▶ Adopting both policies may not be cost-effective decision for state governments
- ▶ Federal incentives may lead to increased disparity in state business performance
- ▶ The federal government got exactly what it paid for

Thank you for your comments and feedback.

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State Bonus Depreciation Example

Table: Example of State Tax Impact of 50% Bonus

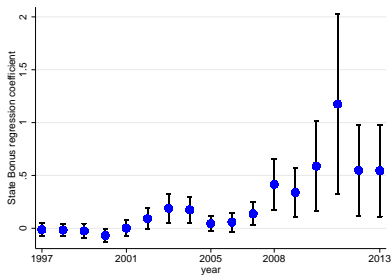
Year	1	2	3	4	5	6	7	8	Total
MACRS Deduction	25	21.43	15.31	10.93	8.75	8.74	8.75	1.09	100
$\tau_f \times$ Deduction	1.8	1.54	1.10	0.79	0.63	0.63	0.63	0.08	7.2
$PV(\tau_f \times$ Deduction)									5.92
50% Bonus Ded.	62.5	10.72	7.65	5.47	4.37	4.37	4.37	0.545	100
$\tau_f \times$ Deduction	4.5	0.77	0.55	0.39	0.32	0.32	0.32	0.04	7.2
$PV(\tau_f \times$ Deduction)									6.56

Notes: This table calculates the present value of state tax deductions for a \$100 investment under both a traditional 7-year accelerated depreciation regime and under a 50% bonus regime. The state corporate tax rate is assumed to be 7.2% - the observed percentage for states that adopted the bonus depreciation policy during years 2001 - 2011. The discount rate is assumed to be 10%.

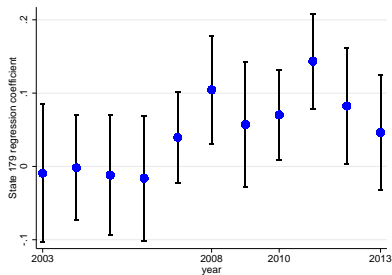
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Autor (2003) Style Graphical DD

Impact of Bonus Adoption



Impact of 179 Conformity



Notes: To create Panel (A) Ln Capx is regressed on State Bonus Adoption interacted with year dummies and Section 179 variables and controls. The interaction coefficients are then plotted by year. 90% confidence intervals are shown. A similar procedure for Section 179 is executed to produce Panel (B) graphs.

[▶ back](#)

Determinants of State Bonus Adoption

- ▶ States that adopted bonus in 2001 have higher corporate income tax rates than states that did not [▶ back](#)

Table: 2001 State Determinants of Bonus Depreciation Adoption

2001			
	Political Determinants		
	Adopter Mean	Rejecter Mean	t stat
Dem Legislature %	47.18	55.17	(-1.482)
Dem Governor	0.467	0.400	(0.418)
	Financial Determinants		
	Adopter Mean	Rejecter Mean	t stat
Corp Tax Rate	7.395	5.791	(1.742)*
Corp Tax %	0.0710	0.0484	(1.506)
Budget Gap	0.00493	0.0203	(-1.110)
	Population/Productivity Determinants		
	Adopter Mean	Rejecter Mean	t stat
GSP per Capita	0.0349	0.0355	(-0.283)

Notes: Table 13 presents means of state level control variables for adopting and rejecting states. Adopting states are those that adopted federal bonus depreciation at any rate. t is the t statistic from the comparison of means. Statistical significance of the t -stat at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.

Determinants of State Bonus Adoption

- ▶ States that adopted bonus in 2008 have more democrat legislators, have smaller budget gaps, and are less productive [▶ back](#)

Table: 2008 State Determinants of Bonus Depreciation Adoption

2008			
	Political Determinants		
	Adopter Mean	Rejecter Mean	t stat
Dem Legislature %	47.55	56.41	(-1.707)*
Dem Governor	0.545	0.559	(-0.0758)
	Financial Determinants		
	Adopter Mean	Rejecter Mean	t stat
Corp Tax Rate	7.395	6.393	(1.046)
Corp Tax %	0.0727	0.0594	(0.914)
Budget Gap	-0.0218	0.0962	(-2.433)**
	Population/Productivity Determinants		
	Adopter Mean	Rejecter Mean	t stat
GSP per Capita	0.548	0.805	(-3.039)***

Notes: Table 13 presents means of state level control variables for adopting and rejecting states. Adopting states are those that adopted federal bonus depreciation at any rate. t is the t statistic from the comparison of means. Statistical significance of the t -stat at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.

Determinants of State Section 179 Conformity

- ▶ States that conformed to federal 179 in 2004 are not statistically differentiable from those state that did not [▶ back](#)

Table: 2004 State Determinants of Section 179 Conformity

2004			
	Political Determinants		
	Conformer Mean	Non-Conf Mean	t stat
Dem Legislature %	48.78	57.80	(-1.678)
Dem Governor	0.472	0.333	(0.738)
	Financial Determinants		
	Conformer Mean	Non-Conf Mean	t stat
Corp Tax Rate	7.258	8.238	(-1.391)
Corp Tax %	0.0518	0.0723	(-1.171)
Budget Gap	-0.0120	0.00493	(-0.973)
	Population/Productivity Determinants		
	Conformer Mean	Non-Conf Mean	t stat
GSP per Capita	0.682	0.736	(-0.657)

Notes: Table 15 presents means of state level control variables for adopting and rejecting states. Adopting states are those that adopted federal bonus depreciation at any rate. t is the t statistic from the comparison of means. Statistical significance of the t -stat at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.

Determinants of State Section 179 Conformity

- ▶ States that conformed to the Federal 179 allowance in 2010 had more democratic legislators than those that did not [▶ back](#)

Table: 2020 State Determinants of Section 179 Conformity

2010			
	Political Determinants		
	Conformer Mean	Non-Conf Mean	t stat
Dem Legislature %	52.89	61.54	(-1.879)*
Dem Governor	0.567	0.467	(0.622)
	Financial Determinants		
	Conformer Mean	Non-Conf Mean	t stat
Corp Tax Rate	6.999	7.735	(-1.241)
Corp Tax %	0.0477	0.0654	(-1.574)
Budget Gap	-0.0327	-0.0481	(0.815)
	Population/Productivity Determinants		
	Conformer Mean	Non-Conf Mean	t stat
GSP per Capita	0.741	0.797	(-0.652)

Notes: Table 15 presents means of state level control variables for adopting and rejecting states. Adopting states are those that adopted federal bonus depreciation at any rate. t is the t statistic from the comparison of means. Statistical significance of the t -stat at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.

Addressing Selection Bias: Limited Sample Analysis

Table: Limiting by Bonus Adoption 179 Conformity Determinants

Dependent Variable: Selection:	In CapX			
	High Corp Tax	Low Dem Leg %	Low Budget Gap	Low GSP/Capita
Specification	(1)	(2)	(3)	(4)
State Bonus	0.137 (0.085)	0.175** (0.077)	0.278*** (0.077)	0.173* (0.089)
State 179	0.013 (0.009)	0.010 (0.011)	0.020** (0.009)	0.021 (0.014)
Bonus 179 Interaction	-0.033* (0.017)	-0.042** (0.019)	-0.073*** (0.018)	-0.043* (0.022)
Adj. R-Square	0.267	0.303	0.267	0.268
State x NAICS Groups	759	792	866	862
Observations	9,502	8,797	8,897	8,377

Notes: All specifications include time and NAICS x Year fixed effects, state-specific NAICS fixed effects, as well as state time-varying controls. The dependent variables in Specifications (1)–(3) is the log of capital expenditures. The dependent variable in Specifications (4)–(6) is the log of employees. Specifications (1)–(3) and (4)–(6) progressively limit the investment then employment analysis to states with higher corporate tax rates. Standard errors are clustered at the state-industry-state level. Statistical significance at the 1 percent level is denoted by ***, the 5 percent by **, and the 10 percent by *.