ADVANCES IN TAXATION

Edited by John Hasseldine

ADVANCES IN TAXATION

VOLUME 30

ADVANCES IN TAXATION

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ADVANCES IN TAXATION

EDITED BY

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ABOUT THE EDITOR

Since 2011, Dr. John Hasseldine has been a Professor of Accounting and Taxation in the Peter T. Paul College of Business and Economics at the University of New Hampshire. Previously he was a Chair and Head of the Accounting and Finance Department at the University of Nottingham Business School. John, a Kiwi, qualified as a chartered accountant in New Zealand and is a Fellow of the Association of Chartered Certified Accountants (FCCA) based in London.

John has served on three government committees in the UK and was a contributor to the Mirrlees Review of the UK tax system conducted by the Institute of Fiscal Studies. He has been an external expert at the International Monetary Fund, a visiting professor at the University of New South Wales, Sydney, and a keynote speaker at several international tax conferences. He travels widely, speaking at national and global conferences, including one on VAT organized by the OECD, World Bank and IMF, and a conference on dealing with the national tax gap held at the US Library of Congress in Washington DC. He is a co-author of *Comparative Taxation: Why Tax Systems Differ* (Fiscal Publications, 2017), and an International Fellow at the University of Exeter Tax Administration Research Centre.

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INTRODUCTION

TAX RESEARCH IN EVER-CHALLENGING TIMES

Reflecting on my editorial for Volume 29, it seems that the world is still dealing with, and will seemingly continue to be challenged by the COVID-19 pandemic. Again, since the prior volume, there have been steady submissions to *Advances in Taxation* from many different countries. I remain grateful to the editorial board for their support and am also pleased to acknowledge the 11 ad hoc expert reviewers listed below for their valuable and timely reviewing activity during 2021–2022.

Yunshil Cha (University of New Hampshire)
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In Volume 30, there are six articles. In the lead article, K.C. Lin, Jared Moore, and David Tree examine the stock market reaction to the Tax Cuts and Jobs Act of 2017 during its enactment process, focusing on its international provisions. They report lower returns for high-foreign-activity firms, indicating a negative market reaction to the international provisions overall. They then further consider specific international provisions, and find that the market reaction was more positive (negative) for firms likely most affected by the shift to a quasi-territorial system for taxing foreign earnings (the transition tax on existing unrepatriated earnings, the tax on global intangible low-taxed income, and/or the base erosion and anti-abuse tax) than for other firms.

Next, in a paper specifically on firm repatriations, Andy Duxbury examines patterns of making or deferring strategic repatriations that firms can use to either meet analysts' forecasts or defer to maintain future reported earnings flexibility. He examines the extent to which firms repatriate earnings from high foreign tax subsidiaries to decrease US tax expense, resulting in increased net income and lower cash taxes. By using federal tax return information, he reports evidence that firms strategically repatriate these earnings to meet or beat current analysts' forecasts. Additionally, he shows that firms that are able to obtain current year tax reductions defer these repatriations in an attempt to build cookie jar reserves and that firms do not disclose high foreign tax repatriations, even when required by SEC rules.

In the third paper, Kaishu Wu investigates the relationship between CSR and tax planning, leveraging the staggered adoptions of constituency statutes in US states. Using a staggered difference-in-differences method, he finds that firms incorporated in states that have adopted constituency statutes exhibit significantly higher effective tax rates (ETRs) based on current tax expense suggesting that managers, with the legitimacy to consider the social impact of tax avoidance, become less aggressive in tax planning. He further reports that the effect of adoption is stronger for financially unconstrained firms and firms in retail businesses, where the demand (cost) for tax avoidance is lower (higher) and that the main results are driven by firms located in states with a high sense of social responsibility and firms with high levels of tax avoidance prior to the adoption.

A set of three papers then examines individual behavioral responses to different tax issues. In the fourth article, Jon Lee, Candice Correia, John Correia, and Zhuoli Axelton investigate the renunciation of US citizenship due to the impact of the Foreign Account Tax Compliance Act's (FATCA) reporting requirements. Within this context, they examine how FATCA compliance costs can affect taxpayer behavior in a manner that reduces economic efficiency. Using responses from 197 experienced US taxpayers living in the US they find that when tax compliance costs are high, taxpayers may be more likely to renounce their citizenship to avoid FATCA reporting requirements and that these tax compliance costs may increase the likelihood of citizenship renunciation even in the presence of a minimal US tax burden.

In the fifth paper, Michaele Morrow, Jacob Suher, and Ashley West investigate the effect of imposing a tax on sugar-sweetened beverages (SSBs) on the likelihood of purchasing SSBs. Using an experimental framework, they find that imposing a tax, in addition to increasing the conspicuousness of the tax by explaining the presence of a tax (and in some cases, the negative health effects) reduces the likelihood of purchasing an SSB anywhere from 8.39% to 18.15% and conclude that imposing a tax on SSBs may be an effective tool for decreasing SSB consumption that is made more effective when the tax is conspicuous.

Lastly, Mohd Allif Anwar Abu Bakar, Mohd Rizal Palil, and Ruhanita Maelah use responses from 592 salaried and self-employed taxpayers in East Malaysia to examine social media, tax morale, and tax compliance behavior. Their findings showed that social media had no significant effect on tax compliance, although there was a significant and negative relationship between social media and tax morale, and a significant and positive effect of tax morale on tax compliance.

John Hasseldine
Editor, Advances in Taxation

INVESTOR REACTION TO THE INTERNATIONAL PROVISIONS OF THE TAX CUTS AND JOBS ACT OF 2017

K.C. Lin, Jared A. Moore and David R. Tree

ABSTRACT

We examine the stock market reaction to the Tax Cuts and Jobs Act (TCJA) of 2017 during its enactment process, focusing on its international provisions. Consistent with extant evidence, we find lower returns for high-foreign-activity firms, indicating a negative market reaction to the international provisions overall. Considering specific international provisions, we find that the market reaction was more positive (negative) for firms likely most affected by the shift to a quasi-territorial system for taxing foreign earnings (the transition tax on existing unrepatriated earnings, the tax on global intangible low-taxed income, and/or the base erosion and antiabuse tax) than for other firms. Our findings imply that investors are able to disentangle the economic implications of complex and interactive tax law changes.

Keywords: Tax Cut and Jobs Act of 2017; TCJA; market reaction; cumulative abnormal returns; international tax; worldwide tax system; territorial tax system; foreign earnings

Data availability: Data are available from the public sources cited in the text and from publicly available financial statements.

INTRODUCTION

This study provides evidence on the economic impacts of the Tax Cuts and Jobs Act (TCJA) of 2017, focusing on stock market reaction to the various specific

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international provisions of the new tax law during its enactment process. President Donald Trump signed the TCJA, the most comprehensive tax legislation since the Tax Reform Act of 1986, into law on December 22, 2017. The TCJA provides for an estimated $1.5 trillion in total tax cuts over 10 years, approximately $330 billion of which applies to corporations (Joint Committee on Taxation, 2017d). Proponents of the TCJA have argued that the new law, particularly its tax cuts and international provisions, will help to realize an economic boom in the US. Echoing this sentiment, President Trump stated during the White House signing ceremony for the TCJA that "corporations are literally going wild over this" (Sullivan & Tackett, 2018). However, such a high level of optimism over the TCJA's economic effects has not been universal. For instance, a University of Chicago survey of prominent economists in November 2017 showed that over 50% of respondents did not believe that the US GDP will be substantially higher a decade after the bill's passage, and only one of the 38 economists surveyed believed that the TCJA itself will increase long-term US GDP (IGM Forum, 2017). In this study, we focus on the TCJA's various international provisions and examine their anticipated economic impacts as perceived by investors preenactment.

The TCJA contains a number of significant provisions that affect corporations, the most notable of which is a reduction in the top corporate statutory tax rate from 35% to 21%. Other major provisions include repeal of the corporate alternative minimum tax and the domestic production activities deduction, expansion of bonus depreciation deductions, new limitations on the deductibility of interest, and a requirement to amortize research and development costs (vs. deducting them). At the center of our study and among the most consequential of the TCJA's provisions is a collection of changes to the rules related to the taxation of foreign profits by US multinational corporations. Specifically, the TCJA moves the US's system of taxing foreign earnings from a worldwide approach to more of a territorial approach. Prior to the TCJA, the earnings of foreign affiliates were taxed in the US when "repatriated" to the US parent in the form of a dividend, arguably "trapping" resources in foreign jurisdictions and making their use for investment and other purposes in the US costly (Edwards, Kravet, & Wilson, 2016; Hanlon, Lester, & Verdi, 2015; Laplante & Nesbitt, 2017; Pomerleau, 2018). Under the new system implemented through the TCJA, those foreign profits generally escape US tax altogether, effectively eliminating the tax-related incentive to avoid repatriating foreign earnings to the US.

However, the version of a territorial system prescribed by the TCJA is modified to include multiple worldwide tax elements that are designed to disincentivize shifting income out of the US. These anti-base-erosion elements include a new special tax on "global intangible low-taxed income" (GILTI) and a new "base erosion and anti-abuse tax" (BEAT), both of which reduce the overall benefits associated with the new quasi-territorial system for affected firms. Moreover, the TCJA also imposes a one-time tax on all existing pre-TCJA unrepatriated earnings of US multinationals, which were estimated at about $3 trillion as of the end of 2017 (Chaney & Francis, 2019; Pomerleau, 2018), as a transition to the new quasi-territorial system. Ultimately, the multiple interacting international provisions of the TCJA create a complex system overall, with aspects that represent both tax benefits and tax costs for firms with operations in foreign jurisdictions (Donohoe, McGill, & Outslay, 2019). Consequently, we expect the market reaction to the TCJA's international provisions to vary across firms according to their exposure to the specific international components.

A literature has begun to emerge that examines the market reaction to the TCJA around key dates and over various windows as it made its way through Congress. Studies in this literature generally assess market reaction to the TCJA's various provisions by examining associations between stock returns and firm characteristics that suggest more or less exposure for the firm to those specific provisions in the new law. For example, recent and concurrent studies generally report higher preenactment returns for firms with higher cash effective tax rates and higher capital expenditures and lower preenactment returns for firms likely to have their interest deductions restricted under the TCJA and firms with higher research and development expenditures (e.g., Chen & Koester, 2021; Donelson, Koutney, & Mills, 2019; Kalcheva, Plecnik, Tran, & Turkiela, 2020; Wagner, Zeckhauser, & Ziegler, 2018, 2020). These findings provide evidence of a positive market reaction to the TCJA for firms likely most affected by the reduction in the corporate statutory tax rate and/or the increased depreciation deductions, and a negative market reaction for firms likely most affected by the new interest deduction limitations and/or the new requirement to amortize research and development expenditures.

Relative to the TCJA's international provisions, several prior and concurrent studies examine the association between the preenactment returns of US firms and the degree of their activity in foreign jurisdictions, measured based on the relative magnitude of foreign revenues, finding a negative relation with some consistency (Chen & Koester, 2021; Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018, 2020). This finding suggests a negative market reaction to the TCJA for firms likely most affected by its international provisions broadly. However, given the complexity of the specific international provisions and the multidirectionality of their effects on firms' tax costs, we expect the overall market reaction during the TCJA's approval process related to firms' foreign activity to vary across high-foreign-activity firms, depending on their exposure to its specific international provisions. We develop two sets of hypotheses to build on the existing evidence of a negative overall market reaction to the TCJA's international provisions; the first focuses on firms that are likely to be more affected by the one-time transition tax versus the general move to a quasi-territorial system, and the second focuses on firms that are likely to be more or less affected by the tax on GILTI and/or the BEAT within the context of the new quasi-territorial system.

Following Wagner et al. (2018), we measure stock returns over multiple windows during the time that the TCJA was under consideration in Congress. The windows reflect the period of time between a start date and the TCJA's enactment date (December 22, 2017), where each start date is based on a key date during the TCJA's enactment process (e.g., Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018). We then regress the returns measured over each window on a set of firm characteristics that represent firms' level of exposure to various TCJA provisions following prior and concurrent studies (e.g., Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018, 2020). Consistent with extant research, we capture firms' overall exposure to the TCJA's international provisions based on their activity in foreign jurisdictions, measured as foreign revenues as a percentage of total revenues. We test our hypotheses by examining interactions between our foreign activity variable and several indicator variables (separately), each identifying firms with characteristics that correspond to our hypotheses.

Consistent with recent and concurrent research (e.g., Chen & Koester, 2021; Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018, 2020), we find that high-foreign-activity firms experienced lower returns than other firms during the TCJA's enactment process overall. Among high-foreign-activity firms, however, we predict and find significantly higher preenactment returns for those that are financially constrained (even *positive* on net in some cases) and significantly lower pre-enactment returns for those with high levels of liquid foreign assets. Relative to the former, prior research argues that financially constrained firms are limited in their ability to generate funds domestically through external financing (i.e., borrowing), thus relying more heavily on repatriations of foreign earnings (Albring, Mills, & Newberry, 2011; Dyreng & Markle, 2016). The TCJA's move to a quasi-territorial system would likely benefit such firms especially by significantly reducing their repatriation tax costs ongoing. Relative to the latter, the one-time transition tax applies two possible tax rates to unrepatriated foreign earnings, depending on the types of assets in which they are held. The higher tax rate (15%) applies to unrepatriated earnings held in liquid assets in foreign jurisdictions; thus, the TCJA would likely result in a significant tax cost for firms with high levels of liquid foreign assets. On the whole, our results suggest that the overall negative market reaction to the TCJA's international provisions found in extant research applies to firms likely to incur higher costs due to the one-time transition tax, but not necessarily to firms that are likely to benefit most from the move to a quasi-territorial system.

Also consistent with expectations, we find that the returns for high-foreign-activity firms that are likely more (less) exposed to the tax on GILTI were lower (higher) than for other high-foreign-activity firms. We capture firms' exposure to the tax on GILTI based on whether the majority of their total profit comes from foreign versus domestic sources and (separately) based on whether their foreign profit exceeds a 10% return on their foreign assets, with both criteria stemming from the GILTI tax's definition as a function of the level of a firm's foreign profit. Finally, we find some evidence suggesting higher preenactment returns for high-foreign-activity firms *not* exposed to the BEAT, based on its $500 million revenue threshold to qualify (LaPlante, Lewellen, Lynch, & Samuel, 2021), including a net market reaction for such firms that was insignificantly different from zero. In sum, these findings are consistent with the overall negative market reaction to the TCJA's international provisions found in existing studies applying to firms that are likely more exposed to the GILTI and/or BEAT taxes, but not necessarily to firms less exposed to those special taxes.

Overall, our findings corroborate and build on evidence provided by recent and concurrent studies relative to stock returns during the TCJA's enactment process for firms that would likely be most impacted by its various provisions. In particular, we document that the overall negative market reaction found in extant research for firms that would likely be most exposed to the TCJA's international provisions varied in magnitude, and even direction in some cases, according to (1) whether the firm would likely be more affected by the one-time tax on unrepatriated foreign earnings or by the shift to a quasi-territorial system for taxing foreign profits, and (2) whether the firm would likely be exposed to the special tax on GILTI and/or the BEAT. Our results suggest that market participants understood the economic implications of the TCJA for firms at a detailed level, including disentangling the impacts of the complex combination of international provisions in the new tax law to some extent.

Our study makes multiple contributions. First, we contribute to the developing literature on the market's initial reactions to the various provisions of the TCJA, particularly those that relate to the taxation of firms' international activities. Prior and concurrent studies explore how investors viewed the economic implications of different aspects of the TCJA as it approached enactment, and several find lower preenactment returns for firms with high levels of foreign activity, consistent with an overall negative market reaction related to the TCJA's international provisions (e.g., Chen & Koester, 2021; Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018, 2020). A few studies also add a measure of "permanently reinvested earnings" to their models, generally finding evidence consistent with negative market reactions to both the TCJA's international provisions broadly and the one-time transition tax specifically, *ceteris paribus* (Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2020). Our analyses provide a richer understanding of how market participants viewed the economic implications of TCJA's international provisions by considering the different international provisions individually (e.g., the shift to a quasi-territorial system, the tax on GILTI, the BEAT, and the one-time transition tax), using an interactive approach that accounts for any dependence of their effects on firms' level of operations in foreign markets.

Second, we contribute to the literature on how the market processes tax information. Prior evidence on the extent to which investors incorporate tax policy changes into their expectations about the firm is mixed, with some studies finding that market participants, even sophisticated ones, have difficulty assessing the implications of temporary or otherwise complex tax law changes (e.g., Bratten & Hulse, 2016; Plumlee, 2003). The TCJA's provisions vary in complexity, and the international provisions are arguably among the most complex of them. Research specifically in the context of the TCJA suggests that investors revised their expectations about firms' fundamentals in anticipation of the tax law change based on the probable implications of several of its provisions, including (broadly) the international ones (e.g., Kalcheva et al., 2020; Wagner et al., 2018, 2020). Our evidence on the market response to the TCJA's international provisions further implies that investors are able to disentangle the likely effects on firms of specific tax law changes that are complex and interactive (i.e., the shift to a quasi-territorial system, the one-time transition tax, the tax on GILTI, and the BEAT). Finally, we contribute analyses that are relevant to the broader policy debate on US taxation of the foreign activities of US multinational corporations by extending the existing literature to provide more in-depth evidence relative to the market's perception, collectively, of the economic implications of TCJA's specific international provisions.

The rest of the chapter is organized as follows: Section "Background and Hypothesis Development" provides background on the TCJA and develops our hypotheses. Section "Methodology" describes our research methods and data. Section "Empirical Results" discusses our empirical results, and Section "Conclusion" concludes.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background on the TCJA

During the 2016 US Presidential and Congressional election campaigns, Donald Trump and the Republican Party ran on a platform that included promises to reduce corporate income taxes (The Economist, 2016). Eight months after taking office, on September 27, 2017, President Trump, along with Republican members of the House of Representatives and the Senate, released a "unified framework" for tax reform that proposed sweeping changes to the tax code, including many that would affect corporations (Davis & Rappeport, 2017). On November 2, 2017, a bill based on the "unified framework" was introduced into the House. The bill, which would become known as the Tax Cuts and Jobs Act of 2017 (TCJA), quickly made its way through Congress and was signed into law by President Trump on December 22, 2017 (Appendix 1 summarizes the key events leading to the TCJA's enactment). That the approval process for the TCJA was completed in less than three months from the issuance of the "unified framework" and just over seven weeks from the introduction of the bill into Congress is notable given that it was the most comprehensive tax reform effort undertaken by Congress since the Tax Reform Act of 1986 (e.g., Kalcheva et al., 2020).

The TCJA contains a number of provisions that represent significant changes to the taxation of corporations in terms of both budget impact and structure. Appendix 2 summarizes the estimated ten-year budget impact of several of the more major provisions that affect corporations in the various working versions of the TCJA bill as it made its way through Congress. Chief among the corporate income tax provisions is a reduction in the corporate statutory tax rate from a graduated structure capped at 35% to a flat 21%. Other major provisions that impact corporations include repeal of the corporate alternative minimum tax (AMT) and the domestic production activities deduction (DPAD), increased bonus depreciation deductions, and new limitations on the deductibility of interest (i.e., limited to 30% of adjusted taxable income). Also significant are changes in the TCJA relative to the treatment of net operating losses (NOLs) and research and development (R&D) costs. Whereas the tax law had previously allowed NOLs to be carried back two years and then forward 20 years for the full offset of any taxable income generated in those years, the TCJA eliminates the carryback, makes the carryforward period indefinite, and limits the deductibility of NOLs to 80% of the carryforward year's taxable income. Concerning R&D costs, the new tax law alters the tax treatment from immediate deduction to capitalization followed by amortization over five years (starting in 2022).

Among the more impactful and higher-profile provisions in the TCJA is a set of international rule changes that, collectively, rank second only to the reduction in the corporate statutory tax rate in terms of budget impact (see Appendix 2). The US previously taxed all foreign-earned profits from whatever source derived at the US statutory rate, allowing an offset (i.e., credit) to the extent of taxes paid to foreign jurisdictions. In the case of a foreign subsidiary of a US parent, the US taxed the earnings of the foreign subsidiary once they were paid back to the US parent in the form of a dividend (i.e., repatriated), but not until then. This "worldwide" system of taxing foreign earnings arguably created an incentive for US multinationals to avoid bringing foreign profits back to the US, thus "trapping" resources in foreign jurisdictions and imposing constraints on firms as they sought to exploit investment opportunities (Edwards et al., 2016; Hanlon et al., 2015; Laplante & Nesbitt, 2017; Pomerleau, 2018). Motivated largely as a means of countering this dynamic, the centerpiece of the international provisions in the TCJA is a fundamental shift in the taxation of foreign-source earnings by US multinational corporations. Specifically, the TCJA replaces the worldwide system for taxing foreign profits with a modified "territorial" system whereby, as a general rule, profits earned in foreign jurisdictions are taxed *only* in those foreign jurisdictions, escaping taxation in the US altogether, even when repatriated.

Although the primary feature of the international provisions in the TCJA is the implementation of a territorial approach for taxing foreign-source income of US multinationals, the new law also contains multiple other complex international provisions that seek to disincentivize income shifting out of the US. These provisions ultimately run counter to the otherwise territorial nature of the new system for taxing foreign-earned income, resulting in more of a hybrid or quasi-territorial (vs. purely territorial) system overall (Pomerleau, 2018; Toder, 2018). The two most significant of these antibase-erosion provisions in terms of budget impact are the special tax on "global intangible low-taxed income" (GILTI) and the "base erosion and anti-abuse tax" (BEAT). The tax on GILTI effectively applies a worldwide tax rate of 10.5% to foreign profit that exceeds a 10% return on the firm's foreign net tangible capital assets, offset by 80% of foreign taxes paid on the GILTI. Accordingly, the tax on GILTI essentially serves as a minimum tax on profits earned in foreign jurisdictions with very low tax rates (i.e., less than 13.125%).[1] The BEAT is a new minimum tax that targets outbound shifting of income by US multinationals through taking deductions for various payments (e.g., services, interest, rent, and royalties) to certain foreign related parties.[2] The BEAT is computed as the excess of a 10% tax rate applied to modified taxable income, calculated by disallowing deductions for such related-party payments, over the firm's regular tax.

The final major piece of the international provisions in the TCJA is a one-time tax on all existing pre-TCJA unrepatriated earnings. As of the end of 2017, US multinationals had an estimated $3 trillion of earnings in foreign jurisdictions that had not yet been repatriated and thus had not yet been taxed in the US under the worldwide system (Chaney & Francis, 2019; Pomerleau, 2018). The one-time tax on those earnings is imposed as a transition to the new quasi-territorial system and, in contrast to prior practice, is payable whether or not firms ever actually repatriate the earnings. While the transition tax certainly constitutes a significant cost for many firms, the rates applicable to the transition tax are lower than either the pre- or post-TCJA regular statutory tax rates of 35 or 21%, respectively, and depend on the type of assets in which the unrepatriated earnings are held. Specifically, the transition tax rates are 15.5% for unrepatriated earnings held in liquid assets (e.g., cash) and 8% for those held in other assets. Further, the TCJA allows firms to pay the transition tax over eight years, starting in 2018.

Prior Literature and Hypotheses

Not surprisingly, and especially given the large scope and impact of the TCJA, a literature has begun to emerge that examines various aspects of the TCJA's effects on firms and shareholders, including post-TCJA firm behavior (e.g., Bennett & Wang, 2021; Carrizosa, Gaertner, & Lynch, 2020; Hanlon, Hoopes, & Slemrod, 2019; LaPlante et al., 2021), information asymmetry among market participants during the TCJA's passage (Fuste, 2021), and analysis of broader economic consequences (e.g., Dharmapala, 2018). This study contributes to a vein of the TCJA literature that investigates the market reaction to the new tax law preenactment, as the bill made its way through Congress.

Several recent and concurrent studies explore cross-sectional variation in stock returns around key dates (e.g., see Appendix 1) and over various windows during the TCJA's approval process in Congress based on firm characteristics that suggest more or less exposure for the firm to specific individual provisions in the new law. As one might expect, the extant evidence generally suggests that firms with higher cash effective tax rates experienced higher returns during the TCJA's approval process (e.g., Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018), indicating a positive market reaction for firms likely to be most impacted by the reduction in the statutory tax rate. Conversely, and also not surprising, prior and concurrent studies generally find lower preenactment returns for firms likely to have their interest deductions restricted by the new limitations in the TCJA (Donelson et al., 2019; Kalcheva et al., 2020; Wagner et al., 2018). Some studies also find higher returns for firms with higher capital expenditures (Chen & Koester, 2021; Kalcheva et al., 2020; Wagner et al., 2020) and lower returns for firms with higher R&D expenditures (Kalcheva et al., 2020; Wagner et al., 2020), suggesting a relatively positive (negative) market reaction for firms likely to be most affected by the TCJA's expansion of depreciation deductions (new amortization rules for R&D costs). A few studies also examine firms likely to be most affected by the TCJA's change in the treatment of NOLs, finding mixed results (Kalcheva et al., 2020; Wagner et al., 2020).

Of particular interest to our study is the evidence to date concerning the market reaction during the TCJA's approval process in Congress for firms most