

## Academic Seminar

# Not All Corporate Tax Cuts Are Created Equal: Evidence from Bonus Depreciation and M&A

We study the impact of bonus depreciation, an increasingly popular fiscal policy that effectively lowers corporate tax rates, on firms' M&A activities. In contrast to the literature, which documents that other tax reduction policies increase the quantity and quality of firms' acquisition activities, we find the initial adoption of bonus depreciation starting from 2001 in the U.S. leads to a lower frequency in firms' acquisitions, despite a higher quality in the remaining deals. Our results are driven by the tax rule that "discriminates" against used assets, as only new capital purchases are eligible for bonus depreciation and thus crowd out M&As. Consistent with this interpretation, we find the reduction in acquisition deals is manifested in cash-financed deals and asset purchase deals. Despite an overall negative effect, M&A deals targeting skilled-labor increased, consistent with labor-skill complementarity. Lastly, we study the impact of the Tax Cuts and Jobs Act of 2017, which made purchase of used assets eligible for bonus depreciation and find the significant crowd-out effect ceased to exist. Overall, we provide novel evidence on the effects of bonus depreciation and demonstrate that the specific channels and rules of a tax cut should be considered, when understanding its impact on M&A..



**Dr. SUN Teng Stephen**

Assistant Professor, Department of  
Accountancy, City University of  
Hong Kong

Stephen Teng Sun is an assistant professor in the department of accountancy at City University of Hong Kong, with joint appointment in the department of economics and finance. He obtained the PhD in economics from Stanford University in 2015 and previously taught at Guanghua School of Management, Peking University. His research has been published in leading journals such as *Journal of Financial Economics*, *Review of Economics and Statistics*, *Journal of the European Economic Association* and *Journal of Development Economics*.

**Date: April 27, 2023 (Thursday)**

**Time: 10:30-12:00**

**Venue: SEK106, 1/F, Simon & Eleanor Kwok Building**

**Language: English**



**\*\*ALL ARE WELCOME\*\***