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TAX RATE REDUCTIONS BOOST CASH FLOW AND INVESTMENT OF SMALL BUSINESSES AND FARMS

WASHINGTON, D.C. — Tax rate reductions are especially beneficial for investment by small businesses and farms that do not have easy access to financial capital, according to a new study released today by Joint Economic Committee (JEC) Chairman Jim Saxton.

The study, *Federal Individual Income Taxes and Investment: Examining The Empirical Evidence*, analyzes statistical research that integrates financing constraints into aggregate investment models.

“Small businesses and farms do not have the same access to financial markets as do large corporations, so internal cash flow is more important to them,” Saxton said. “A reduction in personal tax rates can increase small business cash flow, and thus provide an important boost to small business and farm investment. These proprietorships, partnerships, and subchapter S corporations are an important source of investment, innovation, and employment in the U.S. economy.

“For many years, researchers often did not differentiate between small and large businesses in considering the impact of tax rate reduction on investment. However, the statistical evidence shows that once this distinction is made, the positive impact of tax rate reduction on small business investment is quite significant.

“In addition, the related evidence focusing on entrepreneurship also indicates that many entrepreneurs are forced to rely on relatively inefficient sources of capital for growth. To the extent tax rate reduction can facilitate the ability of entrepreneurs to form businesses and invest in them, such measures can contribute to the dynamism and growth of the U.S. economy,” Saxton concluded.

For a copy of the study, *Federal Individual Income Taxes and Investment: Examining The Empirical Evidence*, and more information on taxation, please visit the JEC website at www.house.gov/jec

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