DEPARTMENT OF THE TREASURY
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FACT SHEET:
How Have the President's Tax Cuts Encouraged Investment?

President Bush's tax cuts have reduced the marginal effective tax rate (METR) on new investment, which is measured as the share of an investment's economic income needed to cover taxes over its lifetime. Lower METRs encourage additional investment, capital accumulation, and, in the long-term, higher living standards.

As shown in the table below, reductions in personal income tax rates (including the tax rates on dividends and capital gains) enacted in 2001 and 2003 have reduced the METR in the corporate sector by 15.5 percent and in the overall economy by 17.4 percent.

The temporary bonus depreciation provision enacted in 2001 and expanded in 2003 to 50% provided a potent short-term investment stimulus. Before expiring at the end of 2004, this provision lowered by one-half or more the METR on qualifying investment.

Effect of President's tax cuts on the marginal effective tax rate on new investment

	Business Sector			Owner-Occupied	Economy-
	Corporate	Noncorporate	Total	Housing	wide
Without Tax Cuts	33.0%	20.6%	28.0%	-2.7%	17.2%
With Tax Cuts 1/	27.9%	17.5%	23.6%	-2.0%	14.2%
% Reduction	-15.5%	-15.0%	-15.7 %	+25.9 %	-17.4%

1/ Includes the effects of lower regular tax rates and lower tax rates on dividends and capital gains income, but not the temporary 50 percent bonus depreciation provision.

Source: U.S. Department of the Treasury, Office of Tax Analysis

Leveling the Playing Field

Taxing income from alternative investments at a more uniform METR – "leveling the playing field" – promotes efficient allocation of resources within the economy by allowing market fundamentals, rather than taxes, to guide financing and investment decisions.

By lowering the tax rate on dividends and capital gains, the 2003 Tax Act *increased* tax uniformity by substantially reducing the METR on income from corporate equity financed investment, relative to other sources of capital income, such as debt and noncorporate income.