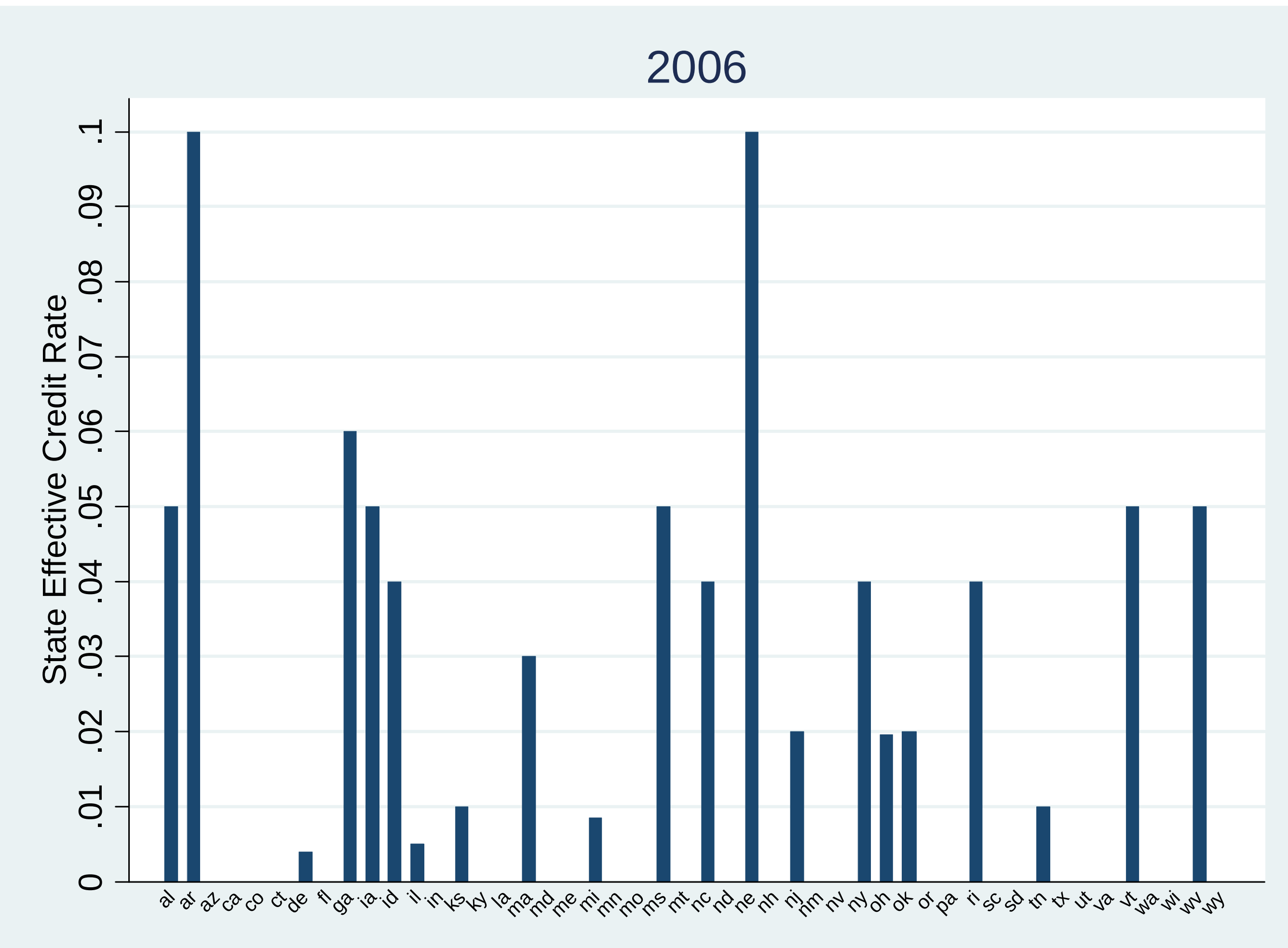
State Investment Tax Credits

Beginning with New York state in 1969, more and more states have adopted investment tax credits over the past 40 years. As of 2006, 21 states have broad investment tax credits (more have credits targetted at specific industries or distressed geographic areas). The chart below shows the distribution of "effective" investment tax credit rates across states, where "effective" refers to adjustments made to the legislated credit rate to account for whether the credit applies to total investment or just incremental investment above a base amount and for how the base amount is computed. There is clearly a gread deal of variation, with rates varying from 0 to 10%. See Chirinko and Wilson (forthcoming, *Journal of Public Economics*) for evidence showing that such investment tax incentives, by lowering the cost of capital for firms, do indeed increase capital formation in states.



Source: Author's calculations.