

Not-for-Publication Appendix to:
Tax News in Recessions and Expansions

Sandeep Kumar Rangaraju* Ana María Herrera†

Abstract

We investigate whether the effect of tax news depends on the state of the economy. Using U.S. quarterly data, we show that news about future tax cuts are more contractionary during recessions. This nonlinearity is mainly due to the response of durable consumption and, especially, nonresidential investment.

JEL Classification: E24, E31

Keywords: Fiscal Policy; Policy Foresight; Anticipated Tax Shocks.

*Department of Economics, Goddard School of Business & Economics, Weber State University, Ogden 84408-3801; phone: (801) 626-6094; e-mail: srangaraju@weber.edu

†Department of Economics, Gatton College of Business and Economics, University of Kentucky, Lexington 40206-0034; phone: (859) 257-1119; e-mail: amherrera@uky.edu

A Tables

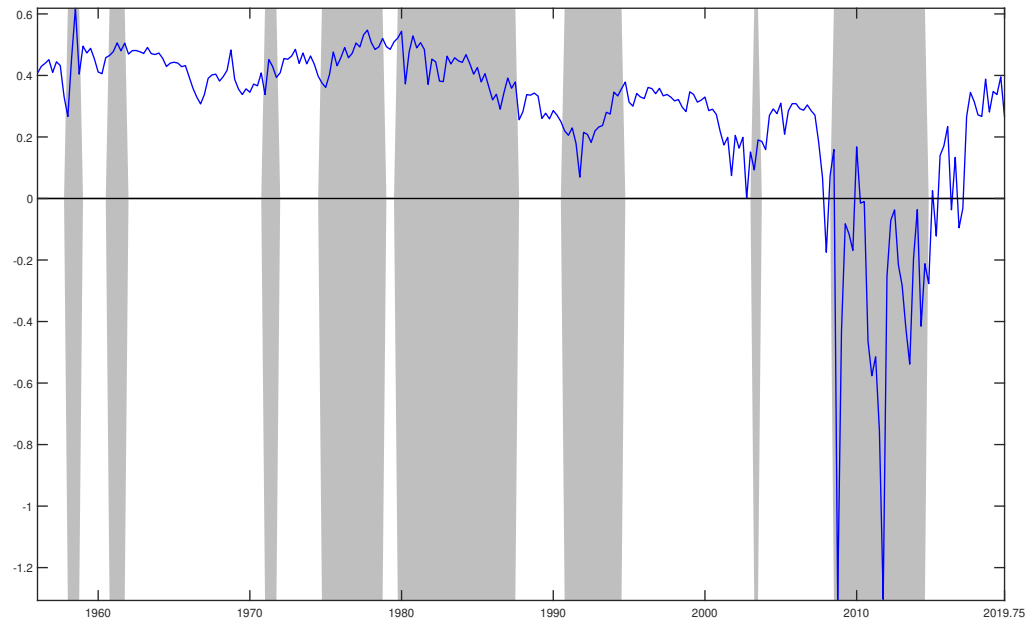
Table A.1: Data definitions and sources used in the Local Projection Method

Variable	Frequency	Description	Source and Construction
r_t^M	Quarterly	Yield on municipal bonds (1 year)	LRW (2012) and Bloomberg's Municipal Fair Market Bond Index
r_t^T	Quarterly	Yield on Treasury bonds (1 year)	LRW (2012) and Bloomberg's Municipal Fair Market Bond Index
τ_t	Quarterly	Implicit tax rate (1 year)	$1 - \frac{r_t^M}{r_t^T}$
GCE	Quarterly	Federal government expenditures	BEA (Table 1.1.5)
$P16$	Quarterly	Civilian non-institutional population, over 16	BLS (LNU00000000Q)
GDP	Quarterly	Gross domestic product	BEA (Table 1.1.5)
$RGDP$	Quarterly	Real gross domestic product	BEA (Table 1.1.6)
$GDPDEF$	Quarterly	GDP deflator	$\frac{GDP}{RGDP}$
g_t	Quarterly	Real per-capita federal government spending	$\frac{GCE}{P16 * GDPDEF}$
$Net Tax$	Quarterly	Federal tax receipts net of transfer payments	BEA (Table 3.2)
t_t	Quarterly	Real per capita federal taxes	$\frac{Nettax}{(P16)*(GDPDEF)}$
y_t	Quarterly	Real per-capita GDP	$\frac{RGDP}{P16}$
ff_t	Quarterly	Federal funds Rate	Federal Reserve Bank of St. Louis

Note: The aggregate variables t_t , g_t , y_t are used in log levels and then included in the Local Projection Method

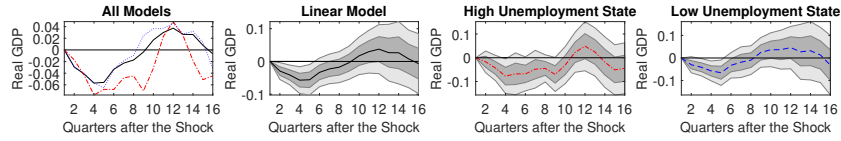
B Figures

Figure B.1: Implicit Tax Rate-1956:I-2019:IV



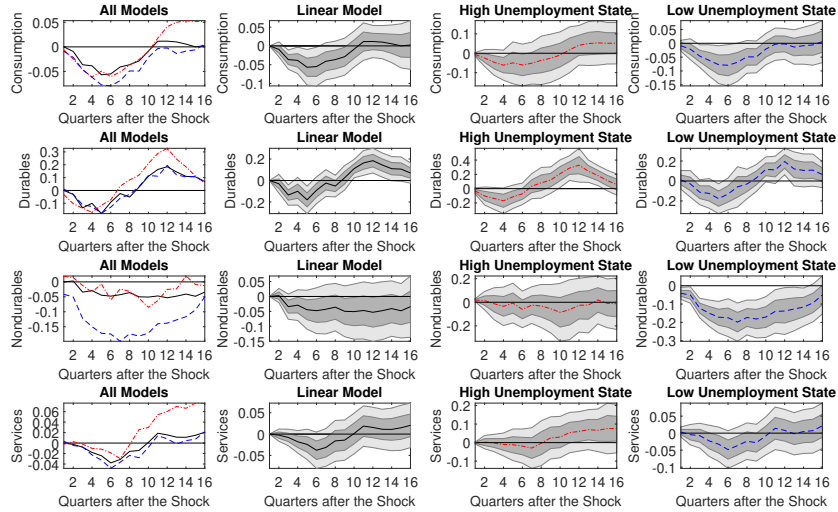
Note: The figure plots the implicit tax rate. The shaded regions reflect the time periods when the unemployment rate is above the threshold value.

Figure B.2: Response of Real GDP to News of a Future Tax Cut using threshold value of 6.5%



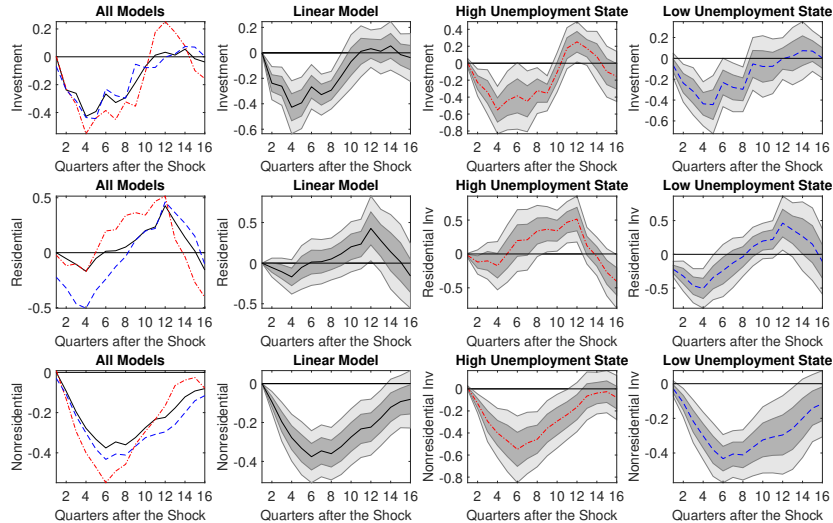
Note: The figure shows the responses to a negative innovation in the implicit tax rate. The solid black line is the response in the linear model, the red dash-dotted line is the response in high-unemployment state and the blue dashed line is the response in low-unemployment state. The dark and light shaded regions represent 68% and 95% confidence intervals.

Figure B.3: Response of Consumption to News of Future Tax Cut using threshold value of 6.5%



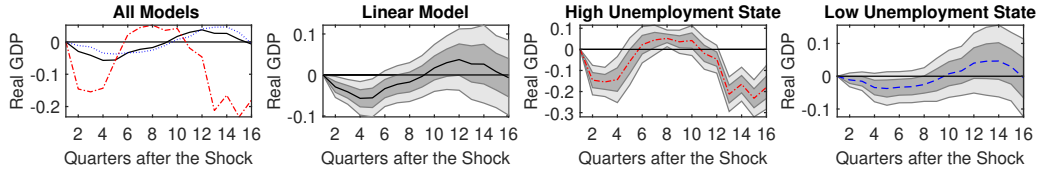
Note: See notes for Figure B.2.

Figure B.4: Response of Investment to News of Future Tax Cut using threshold value of 6.5%



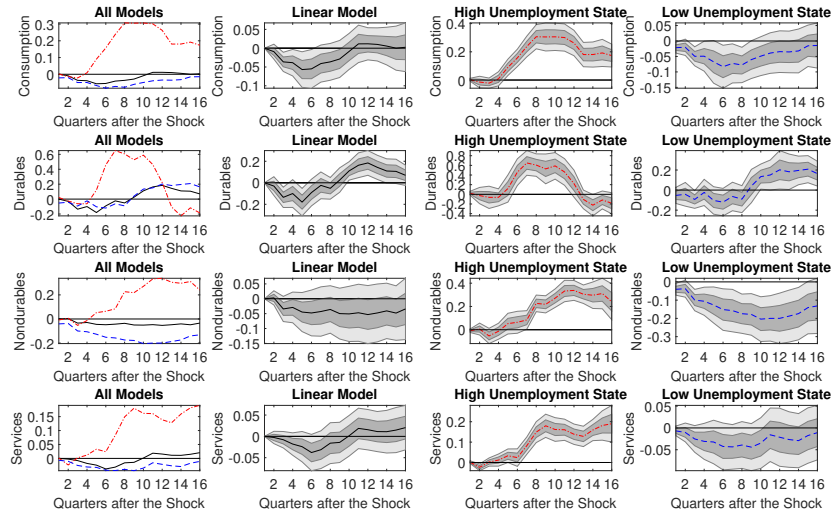
Note: See notes for Figure B.2.

Figure B.5: Response of Real GDP to News of a Future Tax Cut using NBER recession dates



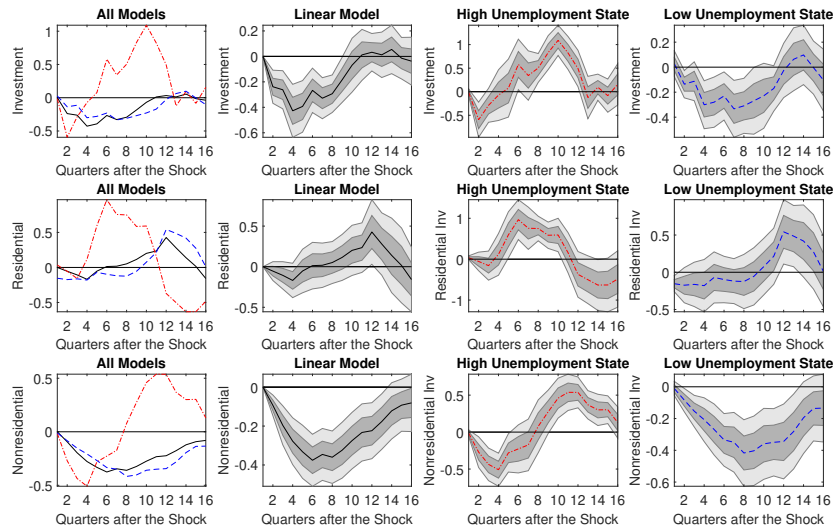
Note: The figure shows the responses to a negative innovation in the implicit tax rate. The solid black line is the response in the linear model, the red dash-dotted line is the response in NBER recession state and the blue dashed line is the response in NBER expansion state. The dark and light shaded regions represent 68% and 95% confidence intervals.

Figure B.6: Response of Consumption to News of a Future Tax Cut using NBER recession dates



Note: See notes for Figure B.5.

Figure B.7: Response of Investment to News of a Future Tax Cut using NBER recession dates



Note: See notes for Figure B.5.