

U.S. Multinationals in Puerto Rico and the Repeal of IRS Section 936 Tax Exemption for U.S. Corporations

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Motivation

- Puerto Rico, the Commonwealth Island and unincorporated territory of the United States, was placed under a Financial Oversight board by the U.S. Congress in 2016. Unable to pay for its 72 billion-dollar debt, in May 2017, the Puerto Rican Government and the Oversight Board, filed for court proceedings similar to Chapter 9 of the U.S. Bankruptcy Code.
- Puerto Rico's economic problems have been blamed in part to the phase out of Internal Revenue Service (IRS) tax exemption program for US corporations located in Puerto Rico.
- There has been no systematic study of the impact of the phase out of IRS tax exemption for US corporations on economic conditions in Puerto Rico.

Research on Impact of 936 Tax Exemption Phase Out

Using industry level panel data, compiled from:

- (i) Internal Revenue Service Statistics of Income for US Possessions Corporations
- (ii) US Economic Census for Outlying Areas
- (iii) US Economic Census

We use difference in difference methodology to analyze the effects of the phase out of Section 936 on manufacturing industries using data from 1982 to 2012.

Section 936 of the IRS Tax Code

- When a U.S. corporation locates in a U.S. possession territory such as Puerto Rico, Guam, American Samoa, Northern Mariana Islands and the U.S. Virgin Islands, the corporation is subject to U.S. taxation on income earned in that U.S. territory.
- For U.S. tax purposes income earned in U.S. possessions is generally considered foreign-source income.

Section 936 of the IRS Tax Code

- In 1921, Federal income tax laws provided an incentive for U.S. corporations to conduct business in a U.S. possession territory such as Puerto Rico.
- Exemption from taxation for all income derived from sources outside the United States if the corporation had derived
 - (i) 80 percent or more of its gross income from U.S. Possessions
 - (ii) 50 percent or more of its gross income from the active conduct of trade or business in the U.S. Possession.

Section 936 of the IRS Tax Code

- The US Tax Reform Act of 1976 created section 936 of the Internal Revenue Code.
 - (i) Only credit against taxes paid on income derived from the active conduct of a trade or business in a possession.
- The goal of the tax exemption program was to encourage employment-producing investments by U.S. corporations in U.S. possessions

Section 936 of the IRS Tax Code

- Section 936 was amended in 1982 and 1986.
- The 1982 Act provided that a possessions corporation's income from intangible assets, such as patents and copyrights, would be taxable to the U.S. shareholders.
- However, to receive tax exemption, corporations doing business in a U.S. possession had to meet a direct labor or value-added test with respect to a specific product or service produced.
- The percentage of gross income that a possessions corporation must earn from trade or business in U.S. possessions was set to 65 percent in 1982 and increased to 75 percent in 1986.

Section 936 of the IRS Tax Code

- United States General Accounting Office (1993), under Section 936:
 - ▣ the tax credit equaled the full amount of the U.S. income tax liability on possessions source income.
 - ▣ Firms qualified for the credit if, over a 3 year period preceding a taxable year
 - 80 percent of their income was derived from sources within a possession
 - 75 percent of their income was derived from the active conduct of trade or business within a possession.
 - ▣ Effectively exempted possessions source income from U.S. taxation.

Section 936 of the IRS Tax Code

- ❑ Restrictions on tax exemption given to U.S. corporation in U.S. territories continued to grow in the 1990s.
- ❑ In 1996, the U.S. Congress repealed Section 936, taking away tax credits for US Possessions Corporations effective after December 31, 1995.
- ❑ Transition rules allowed an existing possessions corporation to claim credits, with certain restrictions, through taxable years before January 1, 2006.

Section 936 of the IRS Tax Code

- Tax exemption through Section 936 applied to all U.S. Possessions: Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands.
- U.S. possessions corporations with operations in Puerto Rico accounted for virtually all of the possessions tax credits.
- In 2005, US Corporations located in Puerto Rico accounted for: 98.8% of the 0.9 billion US\$ tax credits claimed and 94 of the 102 corporations claiming credit.

Literature Taxation and FDI

□ Corporate Taxes and Multinational Firm Location Literature

□ Impact of taxes on the location of R&D

Seminal Work: Hall and Jorgenson (1967)

Survey of Literature: Hines (1996, 1999) and Devereux (2006)

□ Taxes strongly influence firm location

Innovative Activities locate in Low Tax Areas: Hines and Jaffe (2001)

Location goal is Minimize Taxes: Altshuler and Grubert (2006)

□ Taxation is a greater factor for firms with intangible assets

R&D related liabilities represent $\frac{1}{2}$ of income shifted by firms- Grubert (2003)

Intangible assets in subsidiaries are located in the lowest corporate tax areas-Dschinger & Riedel (2011)

Patents ownership is located in low tax areas -Griffith, Miller & O'Connell (2014)

Literature Taxation and FDI

Empirical estimates of tax semi elasticities of FDI:

- (i) Based on theoretical models (Devereux & Lockwood, 2006, Devereux et al, 2015)
- (ii) Based on gravity models (Bellak et al, 2009).
- Feld and Heckemeyer (2011) conducted a meta study of the impact of taxation on FDI based on 704 primary estimates.
 - Average tax semi elasticity of FDI: -2.55
 - Adjusting for publication selection: -2.28 to -1.19
- Strong effects!

Literature Section 936 Tax Credits US Corporations

- Hexner and Jenkins (1995) – In a tax study, argued that the “job creating” benefits of the section 936 were not large enough to justify the U.S. loss in tax revenue.
- ▣ Possessions corporations received full credit against U.S. taxes regardless of whether the income was generated by the use of tangible property and labor, or intangible property transferred to the possession corporation.
- ▣ The tax benefited capital-intensive firms such as pharmaceuticals and did not benefit labor-intensive industries such as apparel manufacturers.

Literature Section 936 Tax Credits US Corporations

- Grubert and Slemrod (1998):

Analyzed 419 U.S. firms located in Puerto Rico in 1987.

(i) operating capital and payroll of Puerto Rican affiliates would be more than $2/3$ lower in the absence of income shifting.

(ii) the elimination of tax exemption for Puerto Rico would cause many firms to cease or reduce the size of their operations.

Data

- (i) 2 digit SIC manufacturing and service industry panel of US Possessions Corporations, 23 industries, 1993-2005 biennial. IRS Statistics of Income for US Possessions Corporations.
- (ii) 2 digit SIC manufacturing industry panel data, 14 industries, 1982-2012 in 5 year intervals. US Economic Census for Outlying Areas, US Economic Census
- (iii) Junta de Planificación of Puerto Rico: 936 and non-936 corporations in 1987.

Methodology

- We estimate a fixed effects model to analyze the impact of the phase out of the 936-tax exemption program for US corporations.
- Puerto Rico is a territory of the United States and has no votes in the U.S. Congress. The policy is exogenous to economic conditions in the island and it is a natural experiment on the impact of removing tax exemptions on the location and employment by US Multinationals.

Methodology

1. Fixed effects model:

$$\begin{aligned} \mathit{Log}(\mathit{USFirms}_{it}) = & \alpha + \beta_1 \mathit{LogTaxCredits}_{it} + \beta_2 \mathit{LogDepAssets}_{it} + \\ & \beta_3 \mathit{LogIntanAssets}_{it} + \beta_4 \mathit{LogBusReceipts}_{it} + \sum_i \mathit{Ind}_i + \sum_t \mathit{Year}_t + \varepsilon_{it} \quad (1) \end{aligned}$$

USFirms -number U.S. possessions filling for tax exemption, industry i and year t.

TaxCredit -value of tax credits awarded.

DepAssets-value depreciable assets

IntanAssets - value intangible assets

BusReceipts - business receipts.

Total Worker Compensation - alternative dependent variable.

All regressions are estimated using industry cluster standard errors.

Methodology

2. Difference in difference model: PR Experiment Group

Control Group 1: All US

Control Group 2: Indiana, North Carolina and Oregon

Control Group 3: Indiana, North Carolina, Oregon and New Jersey

Random Effects Model

$$\begin{aligned} \mathit{Log}(\mathit{Establishments}_{ijt}) = & \alpha + \beta_1 \mathit{TaxCreditPhaseout}_{ijt} + \\ & \beta_2 \mathit{AfterTaxCredit}_{ijt} + \beta_3 \mathit{PR}_j + \beta_4 \mathit{PR} * \mathit{TaxCreditPhaseout}_{ijt} + \\ & \beta_5 \mathit{dR} * \mathit{AfterTaxCredit}_{ijt} + \sum_i \mathit{Ind}_i + \varepsilon_{ijt} \quad (2) \end{aligned}$$

Establishments -number of establishments, country j, industry i, time t.

TaxCreditPhaseOut -dummy variable equals 1 if the year is 1995-2005.

AfterTaxCredit - dummy variable that equals 1 if the year is after 2005.

Alternative Dependent Variables: value added, employment and total compensation as the dependent variable. Industry-location cluster SE.

12,974 jobs lost in past 24 months

Three fourths of job losses within high-paying manufacturing industries;
High opening costs scaring businesses away; expiration of medical patents doesn't help

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A job loss compilation by **CARIBBEAN BUSINESS** confirms that nearly 13,000 jobs have been lost during the past 24-month period. According to the report, the overwhelming majority of jobs lost during that period of time (January 2005-February 2007 time-frame), were high-paying jobs within the manufacturing industry creating an economic vacuum of critical proportions. Net job losses as reported within the compilation do not account for the estimated two indirect jobs supported by each full-time job within the local economy.

Other industries such as airline, hotel, retail, agriculture and media were also impacted by job losses during the same 24-month period. Of the combined job loss totaling 2,636 for industries outside manufacturing, airlines and hotels were impacted the most, accounting for 1,099 of the jobs lost.

Meanwhile, figures from the Puerto Rico Industrial Development Co. (Pridco) indicate the agency has promoted 43 projects and 2,430 jobs from July to November 2006. The December promotion numbers were still pending at press time Monday. Pridco closed out Fiscal 2006 with a total of 5,377 jobs promoted, approximately 41% down from

Fiscal 2005. Even if Pridco promotes between 5,000 and 6,000 jobs and achieves 100% of its projected pipeline for the fiscal year, the numbers will not be nearly enough to reverse the downward spiraling trend of the last two years.

Industry experts interviewed by **CARIBBEAN BUSINESS** cited many different reasons as to why these many manufacturing jobs have been lost, and they expect many more to be lost. Chief among the factors contributing to plant closings, workforce reductions and transitions from full-time to part-time jobs is the ever-increasing cost of doing business in Puerto Rico with numerous electricity and water rate increases combined during that period of time, translating into hundreds of millions of dollars more to operate locally. Add to that a poorly maintained infrastructure, from telecommunications to roads, that in many instances has forced companies to develop their own infrastructure costing millions as well.

Many of the listed companies, including Manufacturing Technology Services, Playtex, Nypro (Aguadilla), Cardinal Health, Timberland, Watson Laboratories, Mueblerías Berríos (furniture manufacturing), Erie Scientific, Sylvania, Colgate-Palmolive, Ivax, Solectron, Stanric, Hanes Brands and Ferrero are in the process of closing down their Puerto Rico operations. Next in the pipeline is the elimination of an additional 200 jobs in Pfizer's, Las Piedras, expected to take place sometime this summer. Pfizer has been hit particularly hard due to stateside cutbacks attributed to patent expirations and industry downsizing.

MANUFACTURING JOB LOSSES January 2005 - February 2007

January 2005	Playtex (Corozal/Vega Baja)	954
March 2005	Hewlett Packard (Aguadilla)	700
	Pfizer (Caguas)	400
April 2005	Manufacturing Technology Services(Caguas)	200
May 2005	Eric Scientific (Aguadilla)	53
July 2005	Timberland (Isabela)	300
	Pfizer (Barceloneta)	350
September 2005	Empresas Manufactura (Caguas) (EMS)	120
October 2005	Watson Laboratories (Humacao)	315
	Pfizer (Barceloneta)	350
	Vassallo (Ponce)	400
November 2005	Fábrica Mueblerías Berríos (Caguas)	120
February 2006	Timberland (Isabela)	316
April 2006	Corpak (Bayamón)	50
May 2006	Cardinal Health (Humacao)	255
	B. Braun (Sabana Grande)	325
	Bristol-Myers (Barceloneta)	104
	Bristol-Myers (Humacao)	300
June 2006	Schering-Plough (Manatí)	550
	Schering-Plough (Las Piedras)	80
July 2006	Ferrero Inc. (Caguas)	118
	Erie Scientific (Aguadilla)	53
	Sylvania (Gurabo)	149
August 2006	Tenere (Ponce and Peñuelas)	105
	NYPRO (Aguadilla)	180
September 2006	Pfizer (Arecibo)	600
October 2006	Colgate-Palmolive (Juncos)	228
	Solectron de Puerto Rico (Ponce)	440
	Medtronic (Villalba)	43
November 2006	Stanric (Fajardo)	200
	Ivax (Cidra)	550
	Bristol Myers	100
February - March 2007	Pfizer (Arecibo and Barcelonesa)	230
	Northrop Grumman (Santa Isabel)	200
	Hanes Brands Inc. (Ponce)	700
Summer 2007	Cardinal Health (Las Piedras)	200
Total Job Loss Manufacturing		10,338

Sources: Puerto Rico Planning Board, Puerto Rico Industrial Development Corporation, individual corporations, Caribbean Business previous articles

SUBASTA PÚBLICA / PUBLIC AUCTION

ELECTRONIC CIRCUIT BOARD AND HARNESS MANUFACTURER
AVAILABLE DUE TO THE CLOSURE OF THE PUERTO RICO FACILITY OF

NORTHROP GRUMMAN CALLE MUÑOZ RIVERA #16
SANTA ISABEL, PR 00757

THURSDAY, FEBRUARY 1, 2007 - 10:00 A.M.

INSPECT ON WEDNESDAY, JANUARY 31, 9:00 A.M. TO 4:00 P.M.

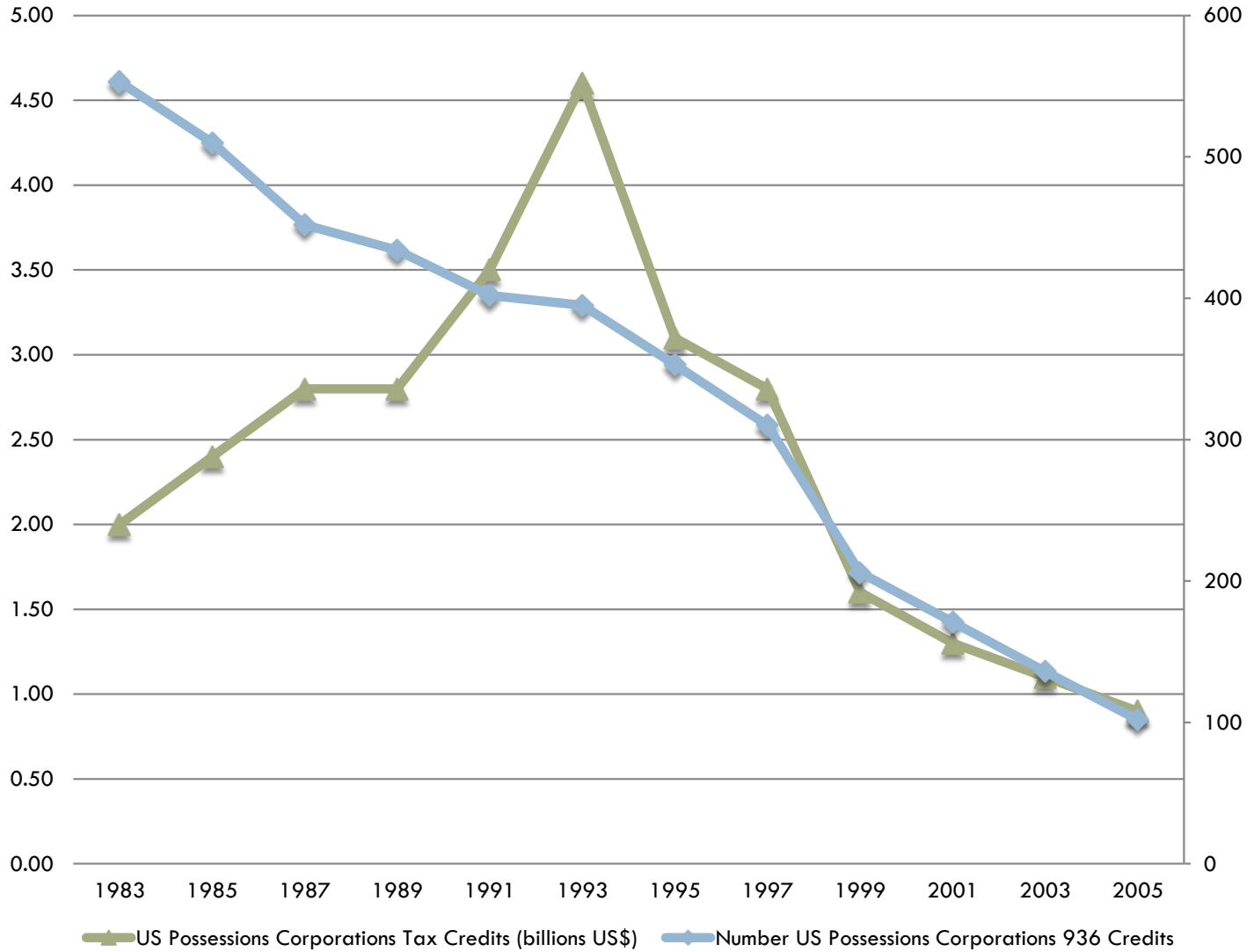
AND ON THE MORNING OF THE SALE FROM 8:00 A.M.

2003 S0M0 157 750K Diesel Generator 762 RVA 625 KW w/ 2V Enclosure & Transfer Switch
2005 MTU Detroit Diesel 750 Generator 750 RVA w Enclosure & Transfer Switch - 25 Hours of Use

the manufacturing industry at a generics as early as 2012, according

Figure 1: US Possessions Corporations Tax Credit Program

Billions of Dollars (left axis) and Number (right axis)



**Figure 2: Puerto Rico Manufacturing
Employment and Number of Establishments**

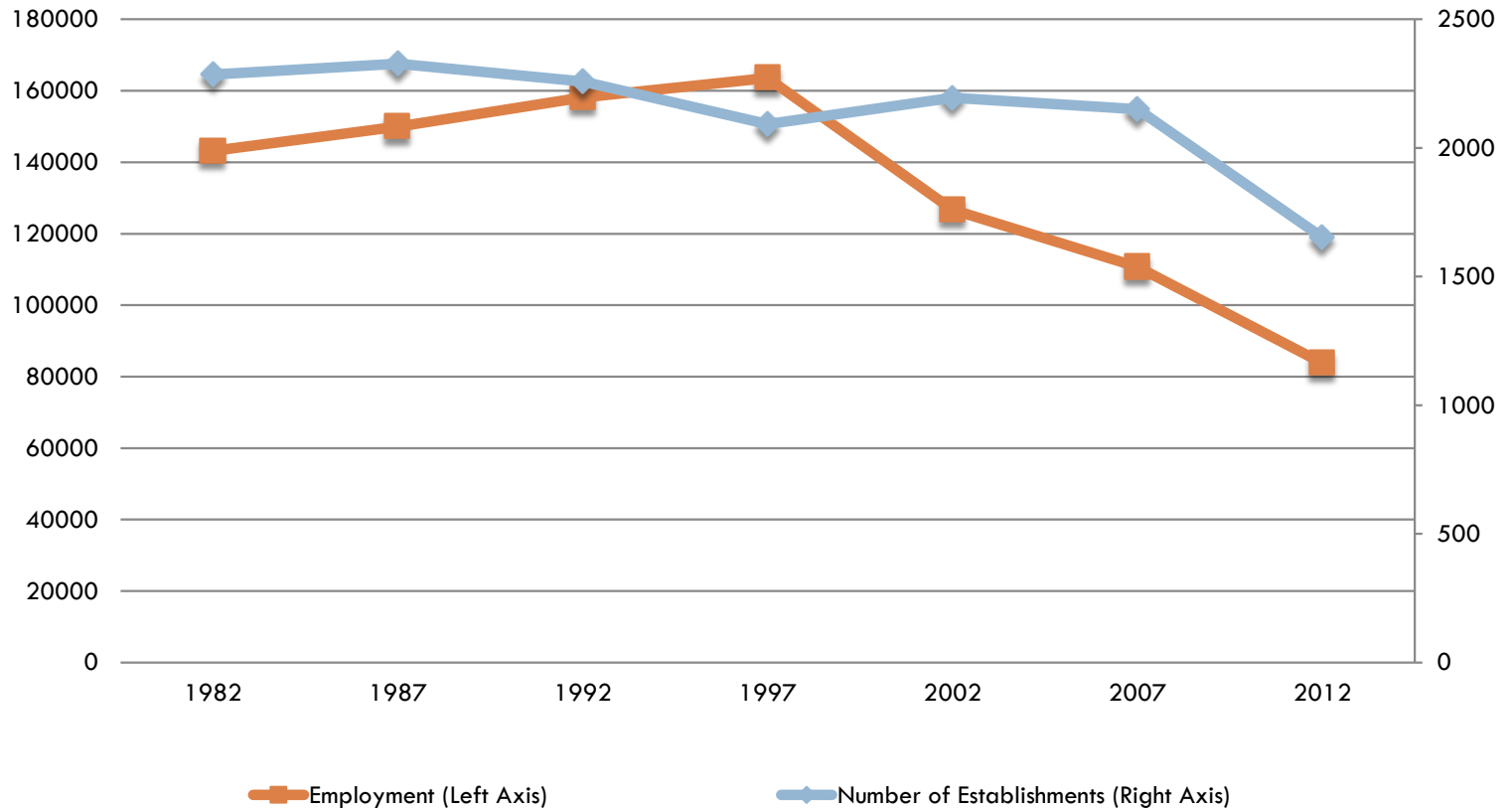


Figure 1: Manufacturing Employment PR vs US
(thousands of workers)

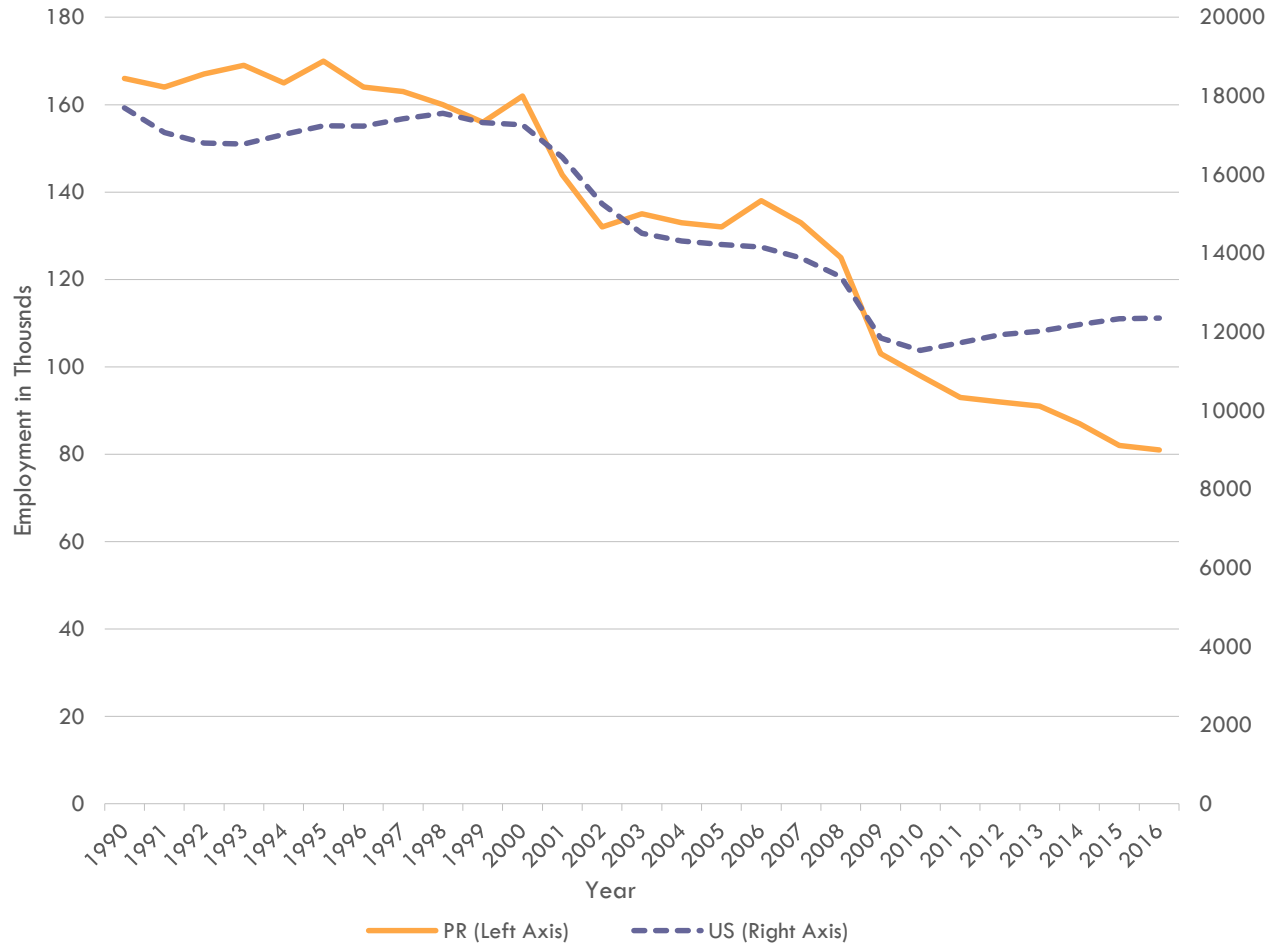


Figure 2: Puerto Rico Employment by Sector
(thousands of workers)

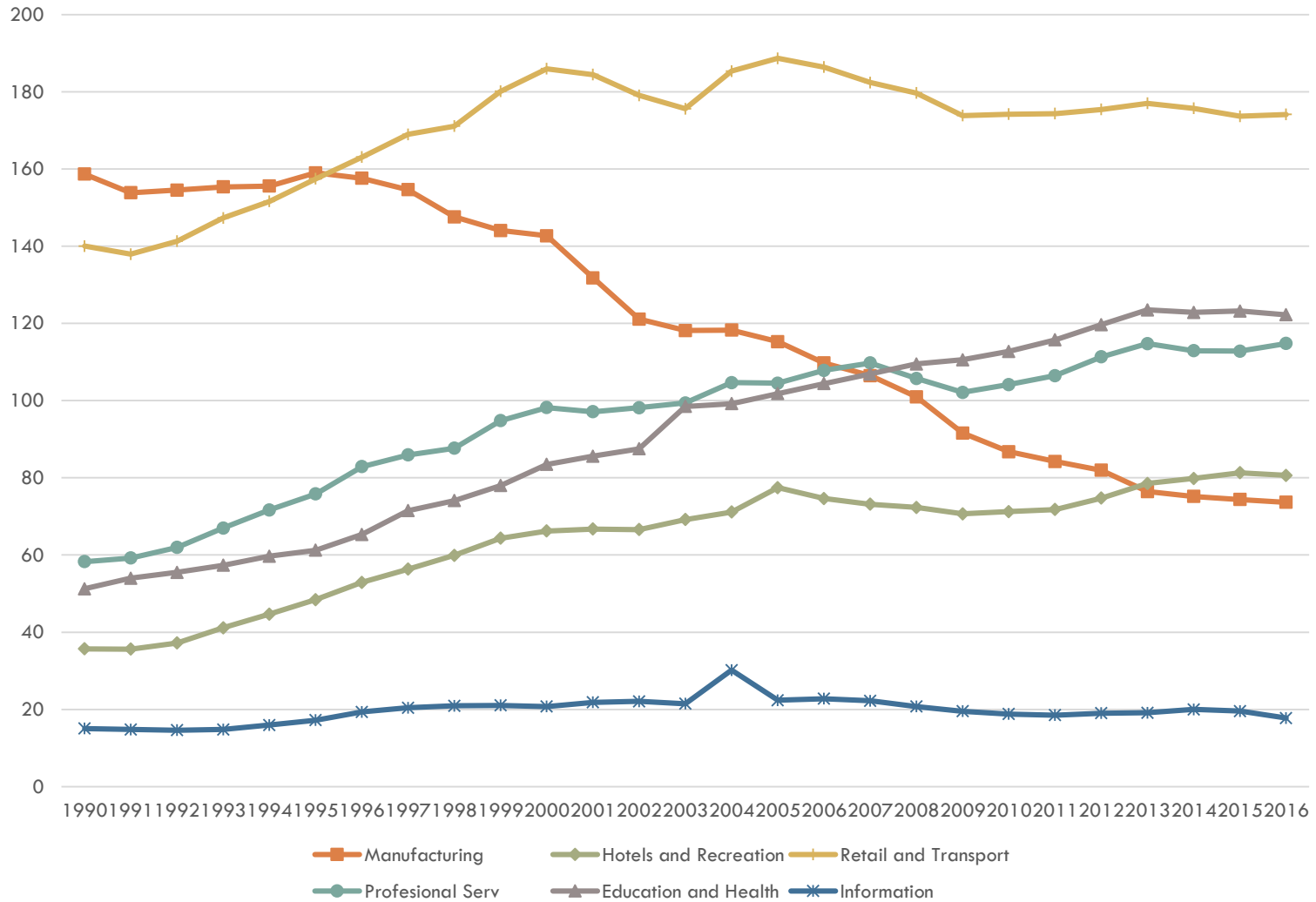


Table 1: U.S. Possessions Corporations, 1993

	Number of 936 returns	Percent of 936 returns	Percent of 936 Tax Credits
Manufacturing Totals	368		
Food and Kindred products	27	7.34%	12.58%
Textile mill products	5	1.36%	0.02%
Other Textile products	49	13.32%	1.73%
Allied	10	2.72%	0.10%
Printing and Publishing	10	2.72%	0.14%
Chemicals and Allied Products	88	23.91%	49.85%
Petroleum and Coal Products	4	1.09%	0.27%
Rubber and Miscellaneous Products	16	4.35%	0.18%
Leather and leather products	13	3.53%	0.46%
Stone, clay, and glass products	4	1.09%	0.08%
Fabricated metal products	19	5.16%	0.12%
Machinery, except electrical	10	2.72%	1.04%
Electrical and electronic equipment	46	12.50%	22.48%
Transportation equipment	4	1.09%	0.29%
Instruments and related products	41	11.14%	9.50%
Miscellaneous Manufacturing	22	5.98%	1.15%
Source: Statistics of Income, US Internal Revenue Service			

Table 2: Percent of Manufacturing Production in 936 U.S. Possessions Corporations in Puerto Rico, 1987.

SIC Code	Industry Description	Percent of Production by 936 firms
20	Food and kindred products	69
21	Tobacco products	99
22	Textile mill products	91
23	Apparel and other textile products	78
24	Lumber and wood products	3
25	Furniture and fixtures	3
26	Paper and allied products	45
27	Printing and publishing	09
28	Chemicals and allied products	98
29	Petroleum and coal products	95
30	Rubber and miscellaneous	70
31	Leather and leather products	94
32	Stone, clay, and glass	12
33	Primary metal industrial products	83
34	Fabricated metal products	32
35	Industrial machinery	98
36	Electronic and other	96
37	Transportation equipment	85
38	Instruments and related	97
39	Miscellaneous manufacturing	87

Table 3: Determinants of U.S. corporations claiming Section 936 tax credits

Independent Variables	Log Number US Corporations Filing Tax Credits		Log Total Expenditures Salaries & Wages	
Log Value US Tax Credits	.200	**	-.121	
	(.085)		(.084)	
Log Net Depreciating Assets	.005		.216	*
	(.090)		(.117)	
Log Net Intangible Assets	.035		-.001	
	(.021)		(.027)	
Log Business Receipts	.094		.531	**
	(.080)		(.116)	
Number of Industries	23		23	
Industry Dummy Variables	Yes		Yes	
Year Dummy Variables	Yes		Yes	
Observations	136		136	
R-Squared	.41		.41	

* Significant at the 10% level, ** Significant at the 5% level

Table 4: Manufacturing in Puerto Rico – 936 elimination -U.S. control group.

Independent Variable	Log Establishments		Log Value Added		Log Employment		Log Average Wage	
Tax Credit Phaseout	.002		.644	**	.050		.498	**
	(.104)		(.263)		(.247)		(.059)	
End of Tax Credit	-.144		.788	**	-.263		.787	**
	(.123)		(.318)		(.277)		(.061)	
Puerto Rico	-4.89	**	-4.82	**	-4.75	**	-.490	**
	(.146)		(.344)		(.289)		(.055)	
PR x Tax Credit Phaseout	-.079		-.091		-.108		-.074	
	(.130)		(.313)		(.275)		(.071)	
PR x End of Tax Credit	-.098		-.333		-.172		-.167	*
	(.186)		(.483)		(.345)		(.093)	
Industry Dummy	Yes		Yes		Yes		Yes	
Year Dummy	Yes		Yes		Yes		Yes	
Observations	196		191		192		192	
R-Squared	.98		.88		.91		.80	

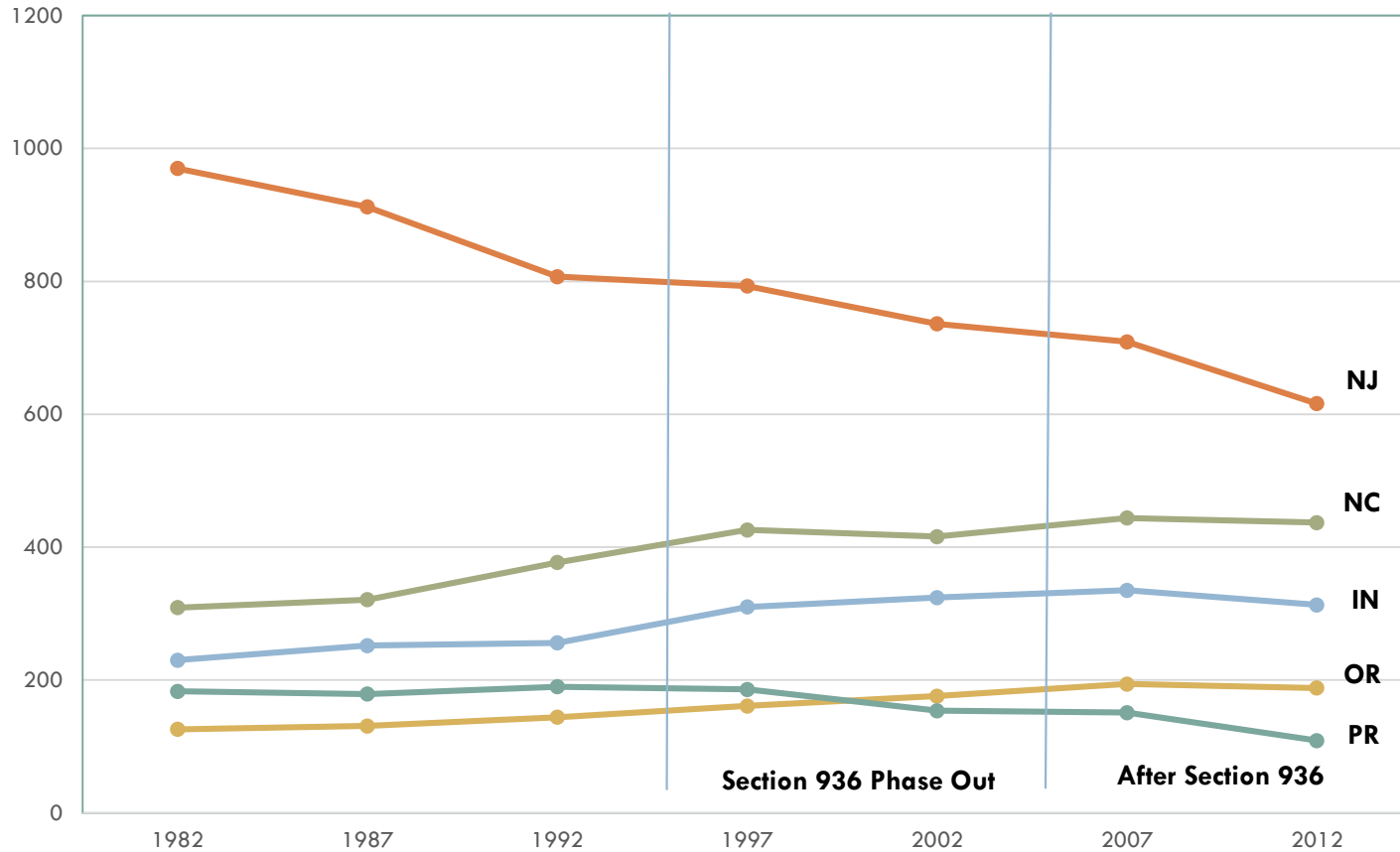
* Significant at the 10% level, ** Significant at the 5% level

Table 6: Puerto Rico – 936 elimination - Indiana, North Carolina, Oregon and New Jersey as control group.

Independent Variables	Log Number of Establishments		Log Sales or Shipments		Log Employment		Log Average Wage	
Tax Credit Phase out	.033		.430	**	-.096		.349	**
	(.060)		(.065)		(.059)		(.059)	
End of Tax Credit	-.088		.617	**	-.367	**	.333	**
	(.076)		(.102)		(.086)		(.093)	
Puerto Rico	-1.328	**	-1.682	**	-1.547	**	-2.000	**
	(.183)		(.380)		(.342)		(.368)	
PR x Credit Phaseout	-.110		-.064		.042		.027	
	(.096)		(.164)		(.132)		(.130)	
PR x End of Tax Credit	-.154		-.295		-.086		-.172	
	(.154)		(.338)		(.220)		(.255)	
Industry Dummy	Yes		Yes		Yes		Yes	
Year Dummy	Yes		Yes		Yes		Yes	
Observations	490		473		473		472	
R-Squared	.87		.67		.70		.70	

* Significant at the 10% level, ** Significant at the 5% level

Figure 5: Number of Establishments in Chemical and Allied Products NC, IN, OR and NJ vs PR



Source: U.S. Economic Census and U.S. Economic Census of Outlying Areas.

Table 5: Manufacturing in Puerto Rico – 936 elimination - Indiana, North Carolina, and Oregon as control group.

Independent Variables	Log Establishments		Log Sales		Log Employment		Log Average Wage	
	Tax Credit Phase out (1995-2005)	.108 (.066)		.536 (.076)	**	.001 (.067)		.433 (.012)
End of Tax Credit (2006 & beyond)	.038 (.080)		.755 (.113)	**	-.248 (.099)	**	.695 (.020)	**
Puerto Rico	-1.27 (.188)	**	-1.61 (.388)	**	-1.48 (.348)	**	-.457 (.049)	**
PR x Credit Phase out	-.186 (.100)	*	-.159 (.170)		-.047 (.138)		-.004 (.043)	
PR x End of Tax Credit	-.280 (.157)	*	-.433 (.343)		-.211 (.225)		-.080 (.069)	
Industry Dummy	Yes		Yes		Yes		Yes	
Year Dummy	Yes		Yes		Yes		Yes	
Observations	392		379		379		378	
R-Squared	.87		.67		.71		.80	

* Significant at the 10% level, ** Significant at the 5% level

Conclusion

- We analyze the effects of the phase out and elimination of the tax exemption for U.S. corporations using the U.S. and States as control groups.
 - We estimate manufacturing wages in Puerto Rico declined by 16.7% due to the elimination of the tax exemption program when using the U.S. as a control group.
 - We estimate the elimination of Section 936 may be responsible for an 18.7% to 28.0% reduction in the number of manufacturing establishments in Puerto Rico, when using Indiana, North Carolina, and Oregon as the control group.
- Results are sensitive to the inclusion of states in the control group. However, there are no perfect control groups for Puerto Rico because on average in 1987 manufacturing wages in the island were 53% lower than in the mainland U.S. Our estimates are a lower bound of the true effect of the elimination of tax exemption in Puerto Rico.

Further Research Impact of Elimination of IRS Section 936

Preliminary Results

Firm Level Data: Puerto Rico Quarterly Census of Employment and Wages (QCEW), 1990 to 2017.

QCEW microdata:

For each state, the QCEW microdata are a byproduct of the unemployment (UI) accounting system in the state. The states receive a Quarterly Contributions Report (QCR) from all private sector employers, as well as from state and local governments covered under the UI program. Federal government employers provide statistical reports via the Federal Employment and Wages. These reports contain only employment and wage data.

Methodology – Difference in Difference

Natural Experiment:

Removal of Tax Exemption is Exogenous to Puerto Rico, Imposed by U.S. Congress

Experiment Group: chemical, pharmaceutical and medical devices- high intangible assets

Control groups: Quarterly Census of Employment and Wages

Control Group 1: Manufacturing low participation Section 936

Control Group 2: Manufacturing medium participation Section 936

Control Group 3: Manufacturing large participation Section 936

Control Group 4: Tourism and Hospitality firms

Method: Random Effects

$$\text{Log}(Emp_{it}) = \alpha + \beta_1 \text{AfterTaxCredit}_t + \beta_2 \text{Pharma}_i + \beta_3 \text{Pharma}_i * \text{AfterTaxCredit}_t + i + \varepsilon_{it} \quad (1)$$

Emp_{it} = Quarter 2 Average Monthly Employment in firm i in year t

i = firm fixed effects

Table 5: Classification of Industries by Section 936 Participation
Source: Junta de Planificación de Puerto Rico, 1993

SIC	Industry Description	Production by 936 firms (%)	Type
28 & 384-385	Chemicals, Pharmaceuticals & Medical Devices	99.6	Pharma
24	Lumber and wood products	3.4	Low
25	Furniture and fixtures	3.4	Low
27	Printing and publishing	9	Low
32	Stone, clay, and glass	11.8	Low
34	Fabricated metal products	32.2	Low
26	Paper and allied products	44.8	Low
30	Rubber and miscellaneous	70.4	Medium
20	Food and kindred products	72.6	Medium
23	Apparel and other textile products	77.6	Medium
33	Primary metal industrial products	83	Medium
37	Transportation equipment	84.7	Medium
39	Miscellaneous manufacturing	87.5	Medium
22	Textile mill products	91	High
31	Leather and leather products	93.6	High
29	Petroleum and coal products	94.6	High
36	Electronic and other	96.2	High
38	Instruments and related	96.9	High
35	Industrial machinery	97.8	High
21	Tobacco products	99.3	High
701, 703, 472, 581	Hotels, Camps, Eating Places, Passenger Transport	None	None

Effects of the eliminating IRS Section 936 on employment of firms in the chemicals, pharmaceuticals and medical devices industry, QCEW

Independent Variables	Log Employment Control Low 936 (1)		Log Employment Control Medium 936 (2)		Log Employment Control High 936 (3)		Log Employment Control Tourism (4)	
Tax Credit Phaseout	-.113 (.013)	**	-.277 (.019)	**	-.304 (.034)	**	-.028 (.007)	**
After Tax Credit Elimination	-.365 (.016)	**	-.559 (.024)	**	-.625 (.042)	**	-.130 (.008)	**
Pharmaceutical	1.524 (.057)	**	.584 (.069)	**	.297 (.084)	**	1.72 (.050)	**
Pharmaceutical x Tax Credit Phaseout	-.119 (.031)	**	.039 (.039)		.076 (.049)		-.200 (.026)	**
Pharmaceutical x After Tax Credit Elimination	-.084 (.037)	**	.092 (.047)	**	.186 (.060)	**	-.308 (.031)	**
Number of firms	4,253		3,348		1,850		18,504	
Observations	34,872		25,434		14,107		121,458	
R-Squared	.15		.06		.03		.06	

* Significant at the 10% level, ** Significant at the 5% level