**Claiming Tax Incentives: Heterogeneous Impacts on Investment, Productivity, and Employment**

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## Abstract

We investigate firms' decisions to claim investment tax incentives following the 2014 tax reform in Japan and their impacts on economic outcomes. Our novel instrumental variable, the ratio of tax-eligible capital input costs to their total costs at the industry level, effectively explained the variation in firms' tax claims. We also report that firms facing financial constraints and those with tax loss carryforwards claimed the tax incentives less often than their counterparts. Tax claimants increased capital expenditures compared to pre-claim levels, with this effect being pronounced among financially constrained firms. Tax claiming did not improve overall productivity. While we observe a rise in labor productivity, this result was attributable to a reduction in employment, rather than an increase in value added. Our findings also suggest that when a relatively small proportion of firms—less than 20% in our analysis—claims tax incentives, focusing on actual claimants shows larger effects of tax incentives compared to the intent-to-treat approach, a standard method for evaluating investment tax incentives.

Keywords: Investment Tax Incentive; Tax Claim; Financial Constraint; Tax Loss; Productivity
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