

ILLUSTRATION OF CALCULATION OF TOTAL COST
TO THE GOVERNMENT OF BORROWED FUNDSMETHOD I

The current interest cost of borrowing long-term money is approximately 5 percent. The moving average rate specified by Senate Document 97 is currently about 3.2 percent. Therefore, a rate of interest approximately halfway between 5.0 and 3.2 could be used for initial consideration as the Government cost of borrowed money.

4.0%

Add to this cost:

1. Corporate taxes foregone by the Government if the average corporate return on investment is 12 percent before taxes¹, if the fraction of dollars borrowed by the Government which would have gone into corporate investment is 65 percent², and if the marginal corporate tax rate is 40 percent.

(.12) (.65) (.4)

3.1%

2. Personal taxes foregone by the Government if the average return on proprietorship, personal income-producing investments, etc., is such that the remaining 35 percent of money borrowed by the Government would have earned a 10-percent return for the persons taxed, and if such return would be taxed at a composite marginal rate of 30 percent.³

(.1) (.35) (.3)

1.0%

3. (a) Taxes foregone by the Government on dividends that would have been received by individuals from corporations if the composite marginal tax rate applicable to individuals is 30 percent, if the taxable dividends payout is 40 percent of corporate