

APPENDIX III

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profits after taxes, and if the assumptions as to corporate earnings and the marginal tax rate shown above under (1) are applicable. The marginal corporate tax rate is assumed to be 40 percent therefore 60 percent of corporate earnings is assumed available to the corporation for payment of dividends.

$$(.3) (.4) (.12) (.65) (.6) = .6\%$$

- (b) Personal taxes foregone by the Government if the corporate investment is financed by bonds rather than by corporate earnings, if corporate bonds carry an interest rate of 5 percent, if the fraction of dollars borrowed by the Government which would have gone into corporate investment is 65 percent, and if the composite marginal tax rate applicable to individuals is 30 percent.

$$(.05) (.65) (.3) = 1.0\%$$

- (c) Actual overall financing arrangements by corporations will generate tax revenues under both (a) and (b), therefore the cost to the Government may be assumed to be somewhere between .6 percent and 1.0 percent, say about .8%

Subtract from this cost:

1. Income taxes collected on Government interest payments, if investment in bonds (see rate above of 4 percent) are divided between corporations and individuals in such a way that the tax rate is 35 percent.

$$(.04) (.35) \quad -1.4\%$$

$$\text{Cost to Government} \quad 7.5\%$$