

the firm has been restored.²⁹ In the first year, dividends will rise 13.5 per cent of the increase in earnings; in subsequent years, the same percentage of the gap between the dividend paid in the previous period and the dividend called for by the firm's traditional payout ratio will be closed. For the country as a whole, the average payout ratio was about .50³⁰ in 1955, so a reduction of the tax by \$1.00 will increase dividends 13.5¢ in the first year, 23.4¢ in the second year, and so on until the increase would equal 50¢. An average of these payments over a period of 100 years—a period corresponding to the economic life of water resource projects—would be 47¢. So, of the 54 per cent of the tax cut which accrues to increased profits, 47 per cent is passed on to dividend recipients. The distribution of dividends by income classes is given in Table 17. Applying the interest rates derived earlier, we find that a rate of 4.96 per cent is applicable to this portion of the tax cut.

These allocations leave 29.2 per cent of the tax cut as the increase of retained earnings. How much will the investment of the taxed firms increase as a result? To answer this question, we consider firms with assets greater than \$10 million separately from smaller firms. This division into "large" and "small" corporations is necessary because the influence of the availability of additional funds on investment varies sharply with the size of the enterprise. We assume that 75 per cent of the tax is paid by large firms, 25 per cent by the rest.³¹

In regard to large corporations, Lintner cites a number of reasons

²⁹ J. Lintner, "Determinants of Corporate Savings," Chapter 14 in *Savings in the Modern Economy*, W. Heller, ed. (Minneapolis: University of Minnesota Press, 1953); and Lintner, "Distribution of Incomes of Corporations among Dividends, Retained Earnings and Taxes," *American Economic Review*, May 1956, pp. 97-113.

³⁰ *Statistics of Income for 1952, op. cit.* The payout ratio of small corporations is lower, and we assume a ratio of .35. This figure is an average of the payout ratios by asset size, weighted by the distribution of tax payments, and allowing for a gradual approach to the average ratio.

³¹ In 1951, corporations with assets over \$10 million paid 70.4 per cent of the tax (*Statistics of Income for 1951, op. cit.*). Figures for all corporations for 1951 are not yet available, but we can make a good estimate from the data on manufacturing. In this sector, which pays two-thirds of the entire tax, the percentage paid by large corporations rose from 76 to 82 per cent from 1951 to 1955. Our estimate assumes a somewhat smaller increase of taxes paid by large corporations outside manufacturing.