



Debt and the marginal tax rate ☆

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Abstract

Do taxes affect corporate debt policy? This paper tests whether the incremental use of debt is positively related to simulated firm-specific marginal tax rates that account for net operating losses, investment tax credits, and the alternative minimum tax. The simulated marginal tax rates exhibit substantial variation due to the dynamics of the tax code, tax regime shifts, business cycle effects, and the progressive nature of the statutory tax schedule. Using annual data from more than 10,000 firms for the years 1980–1992, I provide evidence which indicates that high-tax-rate firms issue more debt than their low-tax-rate counterparts.

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