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WACC and a generalized tax code

Sven Husmann, Lutz Kruschwitz & Andreas Löffler

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Abstract

Valuation of firms is generally based on the WACC approach which typically neglects personal income taxes. This paper extends this approach to incorporate personal income taxes and develop a generalized valuation formula which can be used for any taxation system. The approach is illustrated for four different taxation systems highlighting the importance of considering personal taxes.

Keywords:

WACC

tax shield

imputation system

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Notes

1. This particular feature of the German tax system is also used in Austria and France. In Italy, a 60% exemption will be available for dividends paid.
2. The following description of the national tax codes were taken from Internal Revenue Service ([2004](#)), Inland Revenue ([2004](#)), Canada Revenue Agency ([2004](#)), KPMG ([2004a](#)), KPMG ([2004b](#)) and Canefield ([1999](#)).
3. There is a reduced tax rate for manufacturing firms ranging from 27% to 38%.

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