Tóth Tamás

# Simplified model of capital budgeting with corporate and personal taxes

*Theme 1* – Financing a project with retained earnings the heterogeneous personal income taxes biases shareholder's value per share, however it is not modifying the sign of this value-change. Accordingly investment decisions are not affected by heterogeneous personal income taxes.

*Theme 2* – Financing a project with new equity the value of a project is not affected by heterogeneous personal income taxes, supposing that the project can be approximated with perpetuity and the ratio between the interest tax and dividend tax for all shareholders is approximately equal.

*Theme 3* – Financing a project with new equity can be deduced to the case of financing a project with retained earnings, if the cash-flows of the project can be connected to the cash-flows of other projects by taxation issues.

*Theme 4* – Irrelevance of financial leverage on the shareholder's value can be derived without the effects of personal income taxes, that is, irrelevance of financial leverage can be separated from the effects of personal income taxes. Financing a project (partially) with debt can be deduced to the case of financing it with new equity or retained earnings.