

Taxation and Corporate Financial Policy

ABSTRACT

This paper reviews the theory and evidence regarding the impact of taxation on corporate financial policy. Starting from a basic characterization of the classical corporate income tax and its effects, the analysis focuses on three areas of research: equity policy, debt-equity decisions, and choices regarding ownership structure and organizational form. The discussion stresses the distinction between nominal and more fundamental financial differences – for example, in the relationship between borrowing and leasing – and that financial policy involves choices not only among different underlying policies but also among characterizations of a given policy. The final section offers some brief reflections on the implications of continuing financial innovation.

JEL Classification: H32, G30

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