

Capital Income Taxation and Resource Allocation

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SELECTED SYMBOLS

A	human capital
C	consumption
c	consumption per efficiency unit of labor
c^∞	steady-state consumption per efficiency unit of labor
D_f	company debt
D_g	government debt
f	production function
G	labor efficiency factor [cf. (2.21)]
g	growth rate of G ($g = \text{constant} \geq 0$)
h	superscript for variables controllable by household
I	net investment
K	stock of capital
k	stock of capital per efficiency unit of labor
k^∞	steady-state stock of capital per efficiency unit of labor
L	efficiency unit of labor [$L \equiv GN$, cf. (2.21)]
M	market value of firm [cf. (3.24)]
\tilde{M}	market value of firm after acquisition
m	share price
N	population size, family size
n	growth rate of N ($n = \text{constant} \geq 0$)
P_K	effective price of capital [cf. (6.3)]
\tilde{P}_K	wedge parameter
Q	new issues of shares
r	market rate of interest
r_n	net market rate of interest ($r_n \equiv \theta_p r$)
\bar{r}_n	equivalent rate of return on shares [cf. (10.8)]
S_f	net increase in company debt
S_g	net increase in government debt
T	total tax revenue
T_c	revenue of capital gains tax

T_d	revenue of corporate tax on dividends
T_d^*	revenue of dividend taxation (personal and corporate)
T_{pd}	revenue of personal tax on dividends
T_k	revenue of tax on capital stock
T_r	revenue of tax on retained profits
T_v	revenue of value-added tax
T_w	revenue of wage tax
t	time
U	utility function of household
\bar{U}	present value of household utility [cf. (8.13)]
u	superscript for variable controllable by firms
V	wealth of household [cf. (8.11)]
W	growth factor of firm [cf. (5.21)]
w	nominal wage rate
w^r	real wage rate [cf. (3.39)]
X	superscript for "corporate firm" and "domestic country"
Y	superscript for "non-corporate" and "foreign country"
Z	base of corporate tax [cf. (5.7)]
z	number of company shares
α_1	immediately deductible proportion of investment expense ($0 \leq \alpha_1 \leq 1$)
α_2	deductible proportion of imputed and actual interest cost ($\alpha_2 = 0$, $\alpha_2 = 1$)
α_3	non-deductible proportion of actual (debt) interest cost ($\alpha_3 = 0$, $\alpha_3 = 1$)
β	non-pledgeable proportion of sum of human capital and present value of government transfers ($0 \leq \beta \leq 1$)
δ	true economic depreciation rate
ε	(average) equity-asset ratio [cf. (5.11)]
ε^*	minimum marginal equity-asset ratio [cf. (4.8)]
\mathcal{H}^i	current-value Hamiltonian, $i = h, u$
φ	output per efficiency unit of labor
γ	rate of time preference [cf. (8.17)]
γ^∞	steady-state of time preference [$\gamma^\infty \equiv \rho + \eta g$, cf. (8.38)]
λ	current-value shadow price of household wealth [cf. (2.33)]
λ_D	current-value shadow price of company debt [cf. (2.9) and (4.13)]
λ_K	current-value shadow price of capital stock [cf. (2.9)]
η	elasticity of marginal utility [cf. (2.20)]
Π	accounting profit [cf. (3.25)]
Π^d	gross dividends [cf. (3.26)]
Π_n^d	net dividends [cf. (3.28)]

Π_n^*	retainable net profit [cf. (4.6)]
ρ	utility discount rate
σ	(average) debt-asset ratio [cf. (5.10)]
σ^*	maximum marginal debt-asset ratio [cf.(4.7)]
τ	tax rate (in general)
τ_c	personal capital gains tax rate
τ_d	corporate tax rate on dividends
τ_d^*	overall tax rate on dividends [personal and corporate, cf. (3.10)]
τ_k	tax rate on stock of capital
τ_M	acquisition tax rate
τ_p	personal tax rate on dividends and interest income
τ_r	corporate tax rate on retained profits
τ_r^*	overall tax rate on retained profits [corporate and capital gains, cf. (3.11)]
τ_v	value-added tax rate
τ_w	wage tax rate
θ_i	tax factor [$\theta_i \equiv 1 - \tau_i$, $i = c, d, k, p, r, v, w, M$; $0 < \theta_i \leq 1$; $\theta_d^* \equiv \theta_d \theta_p$, $\theta_r^* = \theta_r \theta_c$, cf. (3.10) and (3.11)]
\dot{x}	time derivative of x ($\dot{x} \equiv \partial x / \partial t$)
\hat{x}	growth rate of x ($\hat{x} \equiv \dot{x} / x$)