

Abstract

The optimal value of the firm under the new Dutch income tax reform act in 2002, is reconsidered in this discussion paper. Tax shield of debt-financing and the aggregate tax payments of its joint investors are simultaneously considered. A more-period model is presented for making integrated decisions about the optimal capital structure and dividend policy. By considering the three parties involved: corporation, all individual investors and the Inland Revenue, the financing decision can be solved as a zero sum game. By simultaneously fine-tuning the debt and payout ratio, the model gives the conditions for maximizing firm's value.