

**Table 1. Key Current Law U.S. cost of capital model parameters**

Market Rates of Return (in percent)	Current Law		Policy	
	2025-2034		2025-2034	
Inflation Rate	2.09		2.09	
Nominal Interest Rate	6.13		6.13	
Real Return on Equity	6.77		6.77	
Federal Tax Rates (in percent)	2025	2026-34	2025	2026-34
Statutory Federal Corporate Income Tax Rate	17.37	17.37	26.68	26.68
Individual-Level Tax Rates on:				
Dividend Income	18.59	19.48	27.33	27.73
Long-term Capital Gains	19.09	19.62	30.73	31.74
Short-term Capital Gains	31.27	32.01	34.66	34.19
Interest Income	28.04	30.12	30.97	31.97
Home Mortgage Interest and Real Estate Tax Deductions <sup>d</sup>	-15.05	-20.02	-15.53	-21.30
Pass-through Business Income	27.83	30.95	30.71	32.41
Distributions of Nonqualified Annuities	17.82	20.95	18.03	21.13
Marginal Effective ITC Rate on Total R&D	6.73	6.73	6.73	6.73
<b>Vary by Sector</b>	2025-2034		2025-2034	
Shares of Marginal Saving Deferred or Exempted				
<b>Corporate Equity</b>				
Temporarily Tax Deferred Nontaxable	0.0291		0.0291	
	0.2854		0.2854	
<b>Corporate Debt</b>				
Temporarily Tax Deferred Nontaxable	0.1920		0.1920	
	0.3087		0.3087	
<b>Pass-through Business Debt</b>				
Temporarily Tax Deferred Nontaxable	0.1437		0.1437	
	0.1805		0.1805	
<b>Homeowner Debt</b>				
Temporarily Tax Deferred Nontaxable	0.0328		0.0328	
	0.0963		0.0963	
<b>Vary by Industry (industry averages shown)</b>	2025-2034		2025-2034	
Share of Investment Financed with Debt				
C-corporations	0.2571		0.2571	
Pass-through Business	0.1993		0.1993	
Owner-occupied Housing	0.3083		0.3083	
Share of After-tax Profit Retained by C-corporations	0.6692		0.6692	
Average Holding Period (in years) for Inventories	0.3443		0.3443	

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**Table 2. Current Law<sup>f</sup> Effective Marginal Tax Rates on New Investment (in Percent)**

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Business	23.3	24.3	24.9	24.9	24.9	24.9	24.9	24.9	24.9	24.9
Corporate Business	21.3	22.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
Asset Type										
Equipment <sup>a</sup>	15.0	18.3	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Structures <sup>b</sup>	19.9	21.6	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.4
Land <sup>c</sup>	25.6	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Inventories <sup>c,d</sup>	28.3	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8
Intangibles <sup>e</sup>	10.0	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Financing										
Debt-financed	16.3	19.7	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Equity-financed	21.9	23.1	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Pass-through Business	25.6	26.3	26.5	26.5	26.5	26.5	26.5	26.5	26.5	26.5
Asset Type										
Equipment <sup>a</sup>	20.3	13.5	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Structures <sup>b</sup>	24.1	24.3	24.9	24.9	24.9	24.9	24.9	24.9	24.9	24.9
Land <sup>c</sup>	28.3	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2
Inventories <sup>c,d</sup>	32.5	35.7	35.7	35.7	35.7	35.7	35.7	35.7	35.7	35.7
Intangibles <sup>e</sup>	23.6	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Owner-occupied Housing	4.2	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Total	14.0	13.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4

Source: US Department of the Treasury, Office of Tax Analysis

Table notes are on the next page

Notes: LIFO = last in first out; FIFO = first in first out; EMTRs = effective marginal tax rates; TCJA = Tax Cut and Jobs Act.

The effective marginal tax rates shown include firm-level taxes and individual-level taxes. They also include Section 179 expensing, the Research and Experimentation (R&E) credit, and bonus depreciation.

The individual-level taxes used to calculate the EMTRs are budget-period (2025-34) averages obtained from OTA's Individual Tax Model. The inflation rate and the nominal interest rate used are also budget-period averages. They are taken from the Administration's fiscal-year 2025 baseline forecast.

a. Equipment includes both nonresidential and residential equipment.

b. Structures include nonresidential, tenant-occupied, and owner-occupied structures.

c. The economic depreciation rate is set to zero and no tax depreciation is included when calculating EMTRs.

d. For inventories, the effective marginal tax rate is calculated using a cost of capital that is a weighted average of the cost of capital under LIFO accounting and the cost of capital under FIFO accounting.

e. Intangible assets include research and development (R&D), artistic originals, and advertising. Advertising is assumed to be expensed. Artistic originals are assumed to be depreciated over 15 years using the straight-line method. R&D is assumed to be amortized over 5 years.

f. The EMTRs assume that most of TCJA's individual provisions sunset at the end of calendar year 2025 and that prior law is reinstated in January 2026. One-hundred percent expensing of qualified property applied through 2022.

Beginning in 2023, it began phasing out at a rate of 20 percentage points per year.

**Table 3. Policy<sup>f</sup> Effective Marginal Tax Rates on New Investment (in Percent)**

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Business	29.5	30.6	31.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4
Corporate Business	30.7	32.4	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7
Asset Type										
Equipment <sup>a</sup>	21.2	25.8	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0
Structures <sup>b</sup>	28.6	30.4	32.9	32.9	32.9	32.9	32.9	32.9	32.9	32.9
Land <sup>c</sup>	36.4	36.8	36.8	36.8	36.8	36.8	36.8	36.8	36.8	36.8
Inventories <sup>c,d</sup>	40.2	40.6	40.6	40.6	40.6	40.6	40.6	40.6	40.6	40.6
Intangibles <sup>e</sup>	21.9	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
Financing										
Debt-financed	14.6	18.0	20.2	20.2	20.2	20.2	20.2	20.2	20.2	20.2
Equity-financed	33.0	34.4	35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6
Pass-through Business	27.0	27.6	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8
Asset Type										
Equipment <sup>a</sup>	16.7	14.4	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5
Structures <sup>b</sup>	25.3	25.4	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1
Land <sup>c</sup>	29.9	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5
Inventories <sup>c,d</sup>	35.9	37.7	37.7	37.7	37.7	37.7	37.7	37.7	37.7	37.7
Intangibles <sup>e</sup>	19.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Owner-occupied Housing	5.2	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Total	18.2	17.7	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2

Source: US Department of the Treasury, Office of Tax Analysis

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The effective marginal tax rates shown include firm-level taxes and individual-level taxes. They also include Section 179 expensing, the Research and Experimentation (R&E) credit, and bonus depreciation.

The individual-level taxes used to calculate the EMTRs are budget-period (2025-34) averages obtained from OTA's Individual Tax Model. The inflation rate and the nominal interest rate used are also budget-period averages. They are taken from the Administration's fiscal-year 2025 baseline forecast.

- a. Equipment includes both nonresidential and residential equipment.
- b. Structures include nonresidential, tenant-occupied, and owner-occupied structures.
- c. The economic depreciation rate is set to zero and no tax depreciation is included when calculating EMTRs.
- d. For inventories, the effective marginal tax rate is calculated using a cost of capital that is a weighted average of the cost of capital under LIFO accounting and the cost of capital under FIFO accounting.
- e. Intangible assets include research and development (R&D), artistic originals, and advertising. Advertising is assumed to be expensed. Artistic originals are assumed to be depreciated over 15 years using the straight-line method. R&D is assumed to be amortized over 5 years.

Notes: LIFO = last in first out; FIFO = first in first out; EMTRs = effective marginal tax rates; TCJA = Tax Cut and Jobs Act.

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- a. Equipment includes both nonresidential and residential equipment.
- b. Structures include nonresidential, tenant-occupied, and owner-occupied structures.
- c. The economic depreciation rate is set to zero and no tax depreciation is included when calculating EMTRs.
- d. For inventories, the effective marginal tax rate is calculated using a cost of capital that is a weighted average of the cost of capital under LIFO accounting and the cost of capital under FIFO accounting.
- e. Intangible assets include research and development (R&D), artistic originals, and advertising. Advertising is assumed to be expensed. Artistic originals are assumed to be depreciated over 15 years using the straight-line method. R&D is assumed to be amortized over 5 years.
- f. The EMTRs include Greenbook proposals that would raise the statutory corporate income tax rate (from 21% to 28%), the corporate alternative minimum tax (from 15% to 21%), and marginal tax rates on dividend income and capital gains. They also include an increase in the top marginal income tax rate to prior law levels (of 39.6%) in 2025 and a minimum tax on the wealthiest taxpayers. The EMTRs assume that most of TCJA's individual provisions sunset at the end of calendar year 2025 and that prior tax law is largely reinstated in January 2026. One-hundred percent expensing of qualified property applied through 2022. Beginning in 2023, it began phasing out at a rate of 20 percentage points per year.

**Notes on Effective Marginal Tax Rates (EMTRs) on new investment under Current Law (CL) and Policy (Fiscal Year 2025 Greenbook proposals):**

1. EMTRs on new investment are calculated under CL and policy (see Tables 2 and 3). The policy proposals include an increase in the flat federal corporate income tax rate from 21 percent to 28 percent. They also include an increase in the top marginal individual income tax rate to prior law levels of 39.6 percent and higher marginal tax rates on dividend income and capital gains.
2. EMTRs under CL and policy from 2027 forward are unchanged because bonus depreciation has fully phased out and TCJA’s individual provisions have sunset.
3. EMTRs in 2025 and 2026 vary by year because bonus depreciation phases out at a rate of 20 percentage points per year beginning in 2023 (i.e., bonus depreciation is 80 percent in 2023, 60 percent in 2024, 40 percent in 2025, 20 percent in 2026, and 0 percent in 2027) and TCJA’s individual provisions sunset at the end of calendar year 2025. The effects of these year-to-year changes in tax law are captured in the cost of capital model using a “comprehensive” measure for the user cost of capital ( $c_s$ ) given by

$$(1) \quad c_s = ((1 - \Gamma_s)/(1 - \tau_s))(r + \delta + ((\Gamma_{s+1} - \Gamma_s)/(1 - \Gamma_s))),$$

where  $\Gamma_s = k_s + A_s(1 - k_s)$ ,  $A_s$  is the present value of the tax benefit from depreciation allowances,  $k_s$  is an investment tax credit rate,  $r$  is the real discount rate, and  $\delta$  is the economic depreciation rate.

Equation (1) includes a component,  $((\Gamma_{s+1} - \Gamma_s)/(1 - \Gamma_s))$ , that makes the user cost of capital in period  $s$  a function of an anticipated, one-period change in the present value (PV) of the tax benefit from depreciation allowances. The PV of the tax benefit from depreciation allowances can vary as a result of either a change in the business income tax rate or a change in the PV of tax depreciation.

4. For corporate businesses, EMTRs on new investment for all asset types are higher under policy. However, it is worth noting that two types of effects work in opposite directions. The increase in the corporate income tax rate from 21 percent to 28 percent tends to increase the user cost of capital. However, it also increases the value of deductions for interest expenses, which has the effect of reducing the real discount rate on debt-financed investment. A lower real discount rate implies a higher PV of tax depreciation and a higher PV of the tax benefit of depreciation allowances. The net result of these offsetting effects can vary depending on how the investment is financed and the extent to which the investment benefits from depreciation.
  - a. Under policy, the PV of tax depreciation and the PV of the tax benefit from depreciation allowances are higher for debt-financed corporate investment and for total corporate investment (a weighted average of debt-financed investment and equity-financed investment). This is true for equipment, structures, and intangibles.

- b. Under policy, the user cost of capital is lower for debt financed corporate investment in equipment, structures, and intangibles over the entire budget period; it is also just slightly lower for total corporate investment in equipment when bonus depreciation is in place. However, the user cost of capital is higher for total corporate investment in structures and intangibles over the entire budget period.
  - c. All 43 types of equipment in the cost of capital model benefit from bonus depreciation. Only some of the 33 nonresidential structure types (e.g., electric structures, wind and solar structures) benefit from bonus depreciation, and all but one intangible asset type (advertising) is amortized.
  - d. As a result, only in the calculation of the user cost of capital for total corporate equipment investment when bonus depreciation is in place is the effect of the higher PV of the tax benefit of depreciation allowances not offset by the effect of the higher corporate tax rate.
5. For pass-through business investment, EMTRs on new investment for equipment and intangibles are lower under policy than they are under CL in 2025. However, EMTRs on new investment in all asset types are higher under policy from 2026.
- a. The business income tax rate for pass-through businesses is almost 2.9 percentage points higher under policy in 2025; it is almost 1.5 percentage points higher under policy between 2026 and 2034 (see Table 1). This means that the overall PV of tax depreciation and the overall PV of the tax benefit from depreciation allowances are higher for pass-through investment under policy in 2025.
  - b. For pass-through business investment, the user cost of capital is lower for equipment, structures, and intangibles under policy. The difference relative to CL in the user cost of capital is greatest for equipment and intangibles, the two asset types for which the EMTRs on new investment under policy are lower in 2025 relative to CL.
  - c. The EMTRs for pass-through business investment are also influenced by the expiration of the 20-percent deduction for domestic, pass-through business income at the end of calendar year 2025.
    - i. Under both CL and policy, the EMTRs on pass-through business investment in equipment and intangibles are lower in 2026 than in 2025. This is because the sunset of the 20-percent deduction increases the tax rate on pass-through business income in 2026. The higher tax rate on pass-through business income increases the anticipated PV of the tax benefit of depreciation allowances in 2026 ( $s + 1$ ) relative to 2025 ( $s$ ). In terms of equation (1),  $((\Gamma_{s+1} - \Gamma_s)/(1 - \Gamma_s)) > 0$  in 2025. The result is an increase in the user cost of capital and the EMTR.