

DCF: Basic Concepts

Taxes

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added-value tax form, Germany

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We distinguish between

Personal tax Taxes on the level of the investor.

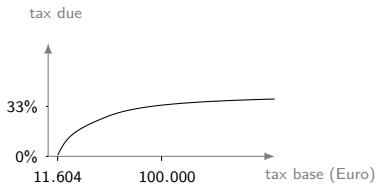
Business tax Taxes on the level of the firm.

Other tax Taxes on different issues (value added, taxes on products like tobacco and coffee, . . .).

In valuation, income taxes are relevant.

DCF is mostly about **firm income taxes**. There are only a few papers about personal income taxes.





Personal income tax scale, Germany 2024

Tax subject Who pays?

$$\text{Tax due} = \text{tax base} \times \text{tax scale.}$$

Other characteristics are ignored

(for example: advance payments,
interim payments, joint filing...)

Tax scale can (and will) depend on tax base.

DCF uses a **linear tax** (constant tax scale τ).



We will talk a lot about “uncertain tax advantages”.

In DCF, the tax scale **will be constant**. No government will ever change it.



We start with firm income tax (chapter 2), then personal income tax (chapter 3).

Taxes are known today and linear.

