

Titel: What is the Value of the Tax Shield of Debt?
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Abstract: More than a quarter-century ago, Modigliani and Miller (1963), Myers (1974) as well as Miles and Ezzell (1980) suggested that the value of tax shields be computed by discounting the debt tax savings to the present using a discount rate that reflects the risk of the debt tax savings. The difference between the various theories lies primarily in the assumed debt policy. In contrast to this literature, Fernandez (2004) derives the value of tax shields by computing the difference between the present value of taxes for the unlevered company and the present value of taxes for the levered company. Fernandez' results challenge existing valuation theories, as he claims that the value of tax shields he derives is generally valid and in fact the only way to compute the correct value of tax shields. This diploma thesis demonstrates that Fernandez' claim is not consistent with his set of assumptions. Further, it is shown that Fernandez' value of tax shields expands on the existent valuation theories by using an additional set of assumptions that includes a new debt policy, but it does not correct or contradict the standard valuation theories.

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