Suppose a firm has a tax loss of $5million in the current period. The firm’s after-tax discount rate is 10%. Over the preceding 5 years the firm has reported the following taxable income:

Year -5 -4 -3- -2 -1 Current

Taxable Income ($ millions) $1 $1 $1.5 $3 $3 -$5

Statutory Tax Rate 40% 40% 35% 35% 30% 30%

1. If the carryback period I 3 years, what is the firm’s marginal explicit tax rate in the current period?
2. If the carryback period is 2 years, what is the firm’s marginal explicit tax rate in the current period?
3. Suppose the carryback period is 2 years and taxable in period -1 was only $1 million. What is the firm’s marginal explicit tax rate in the current period?