

47Q11

A corporation has \$7 million in equity. During the tax year it takes in \$4 million in receipts and earns \$2 million in capital gains from the sale of a subsidiary. It incurs labor costs of \$250,000, material costs of \$500,000, and pays rent for structures of \$250,000. Calculate the corporation's total accounting profit and, assuming that the profit is fully taxable, calculate its tax liability using the tax rates in Table 15.2. Calculate the ATR of the corporation as a percentage of its economic profit, assuming that the opportunity cost of capital is 8 percent. Be sure to explain the steps of your answer.

**TABLE 15.2** Federal Corporate Income Tax Rate Structure, 2006

TAXABLE INCOME	ATR AT BEGINNING OF BRACKET	MTR
Less Than \$50,000	0%	15% <sup>a</sup>
More Than \$50,000 but Less Than \$75,000	15	25 <sup>a</sup>
More Than \$75,000 but Less Than \$10 Million	18	34
More Than \$10 Million <sup>b</sup>	34	35

<sup>a</sup>Not available for corporations with annual incomes greater than \$335,000.

<sup>b</sup>Corporations with taxable income greater than \$15 million annually are subject to an additional 3 percent tax on the excess greater than \$15 million up to a maximum additional tax of \$100,000.