\[ \tau^* = 1 - \frac{(1 - E(T_c))(1 - T_e)}{(1 - T_i)} \]

1. \( E(T_c) \uparrow \): tax rate \uparrow
   - positive deduction cut \uparrow
   - debt has become relatively more attractive
   - less that makes it to BH
   - \[ \text{Note: } E(T_c) \uparrow \Rightarrow (1 - E(T_c)) \downarrow \Rightarrow 1 - \frac{(1 - E(T_c))(1 - T_e)}{(1 - T_i)} \uparrow \Rightarrow \tau^* \uparrow \]

2. \( T_e \uparrow \): personal taxes on equity income \uparrow
   - debt has become relatively more attractive
   - less that makes it to BH
   - \[ \text{Note: } T_e \uparrow \Rightarrow (1 - T_e) \downarrow \Rightarrow 1 - \frac{(1 - E(T_c))(1 - T_e)}{(1 - T_i)} \uparrow \Rightarrow \tau^* \uparrow \]

3. \( T_i \uparrow \): personal taxes on debt income \uparrow
   - debt has become relatively less attractive
   - less that makes it to BH
   - \[ \text{Note: } T_i \uparrow \Rightarrow ((-T_i)) \downarrow \Rightarrow 1 - \frac{(1 - E(T_c))(1 - T_e)}{(1 - T_i)} \downarrow \Rightarrow \tau^* \downarrow \]