$$T^* = 1 - \frac{(1-E(T_c))(1-T_e)}{(1-T_i)}$$

- what left of $1 of pretax income paid to S/H.
- what left of $1 of pretax income pd to B/H.

1) $E(T_c)\uparrow$: (or) tax rate ↑ or profit of deducting int ↑
⇒ debt has become relatively more attractive
⇒ less that makes it to S/H
Math ⇒ $E(T_c)\uparrow \Rightarrow (1-E(T_c))\downarrow \Rightarrow 1 - \frac{(1-E(T_c))(1-T_e)}{1-T_i}\uparrow \Rightarrow T^*\uparrow$

2) $T_e\uparrow$ ⇒ personal taxes on equity income ↑
⇒ debt has become relatively more attractive
⇒ less that makes it to S/H
Math ⇒ $T_e\uparrow \Rightarrow (1-T_e)\downarrow \Rightarrow 1 - \frac{(1-E(T_c))(1-T_e)}{(1-T_i)}\uparrow \Rightarrow T^*\uparrow$

3) $T_i\uparrow$ ⇒ personal taxes on debt income ↑
⇒ debt has become relatively less attractive
⇒ less that makes it to B/H
Math ⇒ $T_i\uparrow \Rightarrow (1-T_i)\downarrow \Rightarrow 1 - \frac{(1-E(T_c))(1-T_e)}{(1-T_i)}\downarrow \Rightarrow T^*\downarrow$