# Taxes

complicated. Assume corporate tax rate is 35%.

revenue
- costs ⎯⎧ expensable costs
        ⎨ capital investments
- taxes ⎯⎩ other costs
_____
net income ⟍ taxable income
         • 35%

revenue
- expensable costs
- depreciation
_____
taxable income
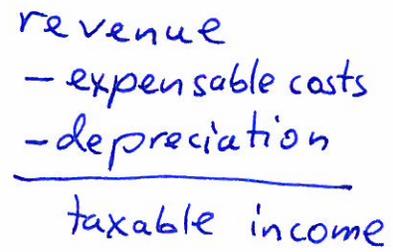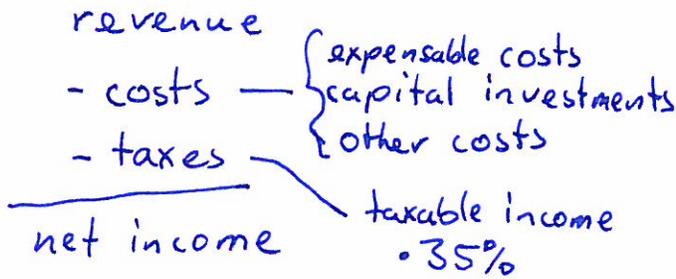
# Depreciation

Spreading out a capital investment over time for tax purposes. For example, you might assume for tax purposes that the capital investment decreases in value like



initial purchase cost
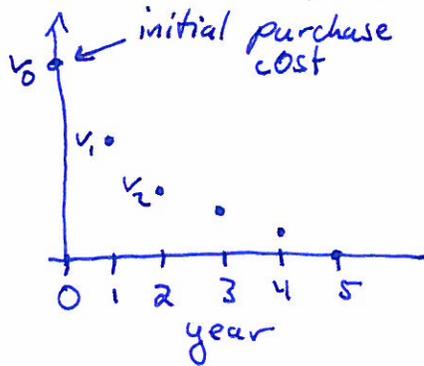
the decrease in value in year 1, $v_0 - v_1$, is the depreciation amount for year 1

depreciation amount for year $t$ is $v_{t-1} - v_t$.

# Straight Line Depreciation

depreciation horizon $k$
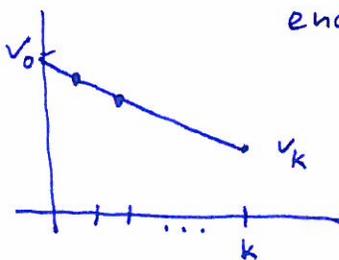
ending value $v_k$



depreciation of $\frac{v_0 - v_k}{k}$ every year

Often $v_k = 0$.