Example of proposed market value tax

The market value of a publicly traded corporation is the value of its stock price multiplied by the number of shares. It is also called the market capitalization, or market cap. This value is publicly available on a daily basis.

To calculate the tax, a reference interest rate would need to be determined (perhaps the rate on 30 year U.S. treasury bonds). Suppose this rate is \( r = 0.03 \).

The daily tax on a company with a market cap of 50 billion (or \( V = 50,000 \) million) dollars that paid no dividends is calculated as follows:

If the tax rate is \( t = 0.25 \), the tax would be:

\[
\left( \frac{rt}{250} \right) V = \frac{0.03 \times 0.25}{250} \times 50,000 = 1.50 \text{ million dollars}
\]

If the stock price did not change all year, the total annual tax would be 375.00 million dollars (in this case, don’t divide by the 250 working days per year).

If the tax rate is \( t = 0.39 \), the tax would be:

\[
\left( \frac{rt}{250} \right) V = \frac{0.03 \times 0.39}{250} \times 50,000 = 2.34 \text{ million dollars}
\]

If the stock price did not change all year, the total annual tax would be 585.00 million dollars.

The company is being taxed as if it were collecting interest on a cash stockpile equal to its market value.

The question of what the tax rate (\( t \)) should be is a matter of opinion – there is no objectively right answer to that question.

The company will get a tax credit if it pays dividends. Suppose it pays a dividend of:

\[
[DIV] = rV = 0.03 \times 50,000 = 1,500.00 \text{ million dollars}
\]

The tax credit would be

\[
t[DIV] = trV = 0.25 \times 0.03 \times 50,000 = 375.00 \text{ million dollars}
\]

if the tax rate was \( t = 0.25 \), and the credit would be
\[ t[DIV] = trV = 0.39 \times 0.03 \times 50,000 = 585.00 \text{ million dollars} \]

if the tax rate was \( t = 0.39 \).

In either case this would cancel out their tax liability for that year.

All of the dividend income needs to be taxed as income to the recipients. This would include taxing dividend income for endowments for nonprofits (note: without the current corporate income tax, it would be necessary to make sure all dividend income is taxed).

If a company is making negative profits, but still has a substantial market value, then it means investors are expecting it to have a profitable future. If the company is having trouble finding the cash to pay the market value tax, it can either borrow money (with the expectation of higher future earnings) or it can sell more shares to raise cash (and also possibly lower its share price enough to reduce its market value, which would reduce the amount of tax owed).