The personal income tax will tax real interest payments at 6X and the inflation component at 82. The net nominal rate of return is thus $iN = (1 - 6J r + (1 - 82)TT$. In our current tax law $Q1 = Q2S0^{**}IN = (1 - 82)T$. When the corporation tax rate exceeds the personal tax rate, inflation induces an increase in the savings rate that reinforces the reduction in liquidity. To understand the nature of this reinforcing effect, recall from equation (4) that $r = \gamma'$. Editorial Reviews. Book Description. Inflation distorts income taxes in many ways, but primarily by redistributing the tax burden among taxpayers. This study analyses in detail the effects of inflation on income tax systems in many countries. It examines some of the more important distortions of income tax systems caused by inflation and discusses possible corrective measures, ranging from automatic adjustments (indexation) to ad hoc responses. About the Author. An economist of international renown, Vito Tanzi served for 20 years as Director of the Fiscal Affairs Department of the International...