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Title: Valuation Effects of Taxes on Debt Cancellation

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## ACCEPTED MANUSCRIPT

### Highlights:

- The tax treatment of a cancellation of indebtedness affects the tax shield value.
- The loss distribution among interest and principal in default affects tax shields.
- For no taxes on a COD standard formulas rely on a pro rata loss distribution.
- The incorrect application of standard equations can lead to substantial biases.

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