



# CASH FLOW BEFORE TAXES

Gross Scheduled Income.....		\$	<u>21,600</u>
LESS: Vacancy Allowance.....	-	\$	<u>1,814</u>
<b><u>GROSS OPERATING INCOME</u></b> .....	=	\$	<b>19,786</b>
LESS: Total Operating Expenses.....	-	\$	<u>7,700</u>
<b><u>NET OPERATING INCOME</u></b> .....	=	\$	<b>12,086</b>
LESS: Annual Interest Payments.....	-		<u>10,500</u>
<b><u>CASH FLOW BEFORE TAXES</u></b> .....	=	\$	<b>1,586</b>

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# CASH FLOW AFTER TAXES

NET OPERATING INCOME (Form 2).....		\$ <u>12,086</u>																				
LESS: Annual Interest Payments.....		- \$ <u>10,500</u> (d)																				
LESS: COST RECOVERY (Compute Below)																						
<p>To Calculate Cost Recovery:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Improvement Value</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">\$ <u>250,000</u></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: center;">(b)</td> </tr> <tr> <td>Divided by</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cost Recovery Period</td> <td style="font-size: 2em;">}</td> <td style="text-align: center;"><u>27.5 yrs.</u></td> <td></td> <td></td> </tr> <tr> <td>Annual Cost Recovery</td> <td></td> <td style="text-align: right;">\$ <span style="border: 1px solid black; padding: 2px;">9,091</span></td> <td style="font-size: 2em;">→</td> <td></td> </tr> </table>			Improvement Value		\$ <u>250,000</u>		(b)	Divided by					Cost Recovery Period	}	<u>27.5 yrs.</u>			Annual Cost Recovery		\$ <span style="border: 1px solid black; padding: 2px;">9,091</span>	→	
Improvement Value		\$ <u>250,000</u>		(b)																		
Divided by																						
Cost Recovery Period	}	<u>27.5 yrs.</u>																				
Annual Cost Recovery		\$ <span style="border: 1px solid black; padding: 2px;">9,091</span>	→																			
TAXABLE INCOME OR (LOSS).....		- <u>9,091</u> = \$ <span style="border: 1px solid black; padding: 2px;">-7,505</span>																				
TIMES: Investor's Tax Bracket (%).....		x <u>27.0%</u> (j)																				
TAX SAVINGS (if negative) or.....		= \$ <span style="border: 1px solid black; padding: 2px;">-2,026</span>																				
TAX LIABILITY (if positive)		<div style="text-align: center;">CHANGE SIGN</div>																				
CASH FLOW BEFORE TAXES (Form 2).....		\$ <u>1,586</u> *																				
TAX SAVINGS OR LIABILITY.....		+ <u>2,026</u> ←																				
CASH FLOW AFTER TAXES.....		= \$ <span style="border: 1px solid black; padding: 2px;">3,612</span>																				

\* If CFBT is negative: A tax savings will reduce the negative cash flow.  
A tax liability will increase the negative cash flow.

\* If CFBT is positive: A tax savings will increase the positive cash flow.  
A tax liability will reduce the positive cash flow.

# TAX DUE ON SALE

Purchase Price.....  
 Annual Appreciation Rate (%).  
 Holding Period.....

\$ 250,000 (a)  
7.00% (l)  
5 yrs. (k)

**PROJECTED SALES PRICE:** (Solve for FV).....

**LESS: Projected Cost of Sale(%):** 5.00% (m) x (o)

**LESS: Adjusted Basis-**

To Calculate Adjusted Basis:

Purchase Price..... \$ 250,000 (a)  
 PLUS: Closing Costs..... + 0 (e)

LESS: Total Cost Recovery:

\$ 9,091 (Annual Cost)  
 Recovery (Form 3)  
 x 5 Holding Period (k) - 45,455 (q)

Adjusted Basis..... \$ 204,545

\$ 350,638 (o)  
 - \$ 17,532 (p)  
 - 204,545  
 = 128,561 (r)

**TOTAL TAXABLE GAIN ON SALE**.....

**To Calculate Recapture Tax:**

Recapture Total Cost  
 Recovery Taken \$ 45,455 (q)  
 Tax Rate (%) x 15%  
 Tax Due from Recapture  
 of Cost Recovery = \$ 6,818

\$ 6,818  
 + 16,621

**To Calculate Balance of Capital Gains Tax:**

Total Taxable Gain \$ 128,561 (r)  
 Less: Total Cost of  
 Recovery Taken (Recapture) - 45,455 (q)  
 Balance of Capital Gain = 83,106  
 Times Capital Gains Tax Rate (%) x 20%  
 Balance of Capital Gains  
 Tax Due From Sale = \$ 16,621

**TOTAL TAX DUE ON SALE** = \$ 23,439

# RESIDENTIAL INVESTMENT PERFORMANCE SUMMARY

**PROJECTED SALES PRICE:**.....

**LESS: Projected Cost of Sale:**.....  
         **Mortgage Balance Due:**.....  
         **Tax Due on Sale (Form 4):**.....

**AFTER-TAX PROCEEDS FROM SALE:**.....

**CASH FLOW AFTER TAX (Form 3):**.....  
**Investor After-Tax Rate of Return (%):**.....  
**Holding Period:**.....

**AMOUNT ACCUMULATED:**.....

**TOTAL FUTURE WEALTH:** (      **S**      **T** ) ..

**INITIAL INVESTMENT:**.....

**HOLDING PERIOD:**.....

**AFTER-TAX RATE OF RETURN/YIELD (%):**.....

**Comparable Before-Tax Rate of Return**.....

=	\$	350,638	o
		-	
	\$	17,532	p
		-	
	\$	175,000	c
		-	
	\$	23,439	
		=	
	\$	134,667	S

	\$	3,612	
n		2.19%	
k		5 yrs.	
		=	
		18,869	* T

	\$	153,536	
f		\$ 75,000	
k		5 yrs.	

= 15.41%

**0.211045261**

**\*Note:** If CFAT is positive, the amount accumulated will also be positive and represents the amount that annual cash flows would earn if invested in a relatively safe and liquid type investment during the holding period.

If CFAT is negative, the amount accumulated will also be negative, and represents the after-tax lost opportunity cost of using investment capital to meet the annual deficit for the duration of the holding period.