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TAX REFORM AND REAL ESTATE

BY

KENNETH T. ROSEN
ANDREA LEPCIO

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TAX REFORM AND REAL ESTATE

by

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Working Paper: #86-117

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Introduction

With the House of Representatives-Senate Conference Committee's passage of its version of a tax reform bill, it now seems almost certain that the real estate industry will face a radically different and less favorable tax environment in 1987 and beyond.

Returns from real estate are composed of cash flow from rents, appreciation of capital, tax shelter from the use of depreciation, and interest deductions against real estate income and other income. The House of Representatives-Senate Conference proposal, by substantially reducing the value of tax shelter associated with real estate investment, will force the real estate industry to make major adjustments. In the near term, these adjustments will include declines in real estate values and new construction activity, and a sharp curtailment in tax-oriented syndications. Over the longer term, rents are likely to rise, and nontaxable investors are likely to increase their role relative to taxable investors. While all sectors of the economy will have to adjust to the new tax environment, the real estate industry, because of its recent heavy dependence on tax-oriented returns, will experience the most severe adjustment costs.

The House of Representatives-Senate Conference Committee Bill

Four major features of the tax reform proposals will significantly affect real estate investments:

(1) The depreciable life of real estate assets will lengthen from 19 years to 27.5-31.5 years. The plan will eliminate the use of accelerated depreciation.

(2) Effective capital gains tax rates will increase. For top tax bracket investors, the effective capital gains tax rate will rise to 28% from 20%.

(3) The ability to use real estate tax loss to offset non-real estate income will be reduced. One of the most important provisions of the bill -- and the key to the elimination of tax shelters -- is the restriction on the ability of individuals to shelter earned income and "portfolio" income (dividend and interest) with losses arising from "passive" activities. Passive activity losses will only be able to be offset against passive activity gains. All limited partnership interests will be treated as passive activities even if the limited partner materially participates in the business activity. Rental real estate activity will be considered passive whether or not the taxpayer materially participates. There will be special rules for individuals with income below $150,000. Individuals will be allowed to annually deduct up to $25,000 of passive losses (to the extent that they exceed passive activity gains) from rental real estate if the individual "actively participates." The $25,000 deduction will be reduced by 50% of the individual's adjusted gross income above $100,000.

These limitations on investment interest deductions and passive losses will be phased in over a four-year period. Deductions will be reduced by 35% in 1987, by 60% in 1988, by 80% in 1989, and by 90% in 1990.

Finally, unused annual tax shelter losses will be able to be carried forward.

(4) The maximum Federal income tax rate will be lowered to 28%. Reducing the tax rate will reduce the value of the deductions normally associated with real estate. In addition, the plan will tighten alternative minimum tax provisions. Figure 1 shows the highlights of the key provisions of the House of Representatives-Senate Conference Committee bill as they will affect real estate.

Figure 1. Highlights of Key Provisions of the House of Representatives-Senate Conference Committee Bill

	House of Representatives-Senate Bill	Current Law	Pre-1981 Law
Depreciation			
Life	27.5-31.5	19	
20-60			
Rate	100%	175%	100-125%
Interest + Tax Shelter Limitation	Yes	No	No
Capital Gains Exclusion			
Land	0%	60%	60%
Building	0	60	60
Recapture Tax	No[a]	Yes	Yes
Maximum Tax Rate	28%	50%	70%

[a]After the transition from the current tax code to the new tax code, there will be no depreciation recapture, because accelerated depreciation will be eliminated.

The Impact of Tax Reform on Values, After-Tax Cash Flows, Rents, and Rates of Return

The impacts of the tax reform proposals were tested using the standard deterministic cash flow model employed by real estate industry analysts on a prototypical apartment complex and office building:

(1) A base case was calculated for the current tax environment.

(2) The House of Representatives-Senate bill was simulated in the same cash flow model with nontax assumptions held constant to produce estimates of internal rates of return (IRR) and after-tax cash flows.

(3) A final set of simulations were done to determine the possible effects of the tax bill on values and rents. In these simulations, the IRR was constrained to that currently being achieved, the new tax provisions were assumed in effect, and rents and value were allowed to adjust to solve the simulations.

Assumptions

We completed the analysis for a prototypical apartment building and office building using the current market rent and purchase price as initial values. The base case for the apartment was a ten-unit building with a current market value of $455,000, which is assumed to be 78% financed at 10.5% interest rate for ten years (see Figure 2). The capitalization rate (cap rate) was held constant over the period.[1] In the new tax environment, the cap rate may not remain constant if market adjustments occur in the relationship between rent, operating expense and building value.

The building was assumed to be fully leased and subject only to the natural vacancy rate.[2] Inflation is assumed to have an exact pass-through to operating expense. We analyzed the base case for a 3% inflation in rents and expenses.[3]

We tested the sensitivity of the results to certain assumptions through altering the base case; we modified two key assumptions -- the loan-to-value ratio and the rent-to-value ratio.

The base case for the office building was a 200,000-square-foot building with a current market value of $40,889,000, which is assumed to be 78% financed at a 10.5% interest rate for ten years (see Figure 2). Prevailing market conditions were used for other assumptions.

Figure 2. Base Case Assumptions

	Apartment	Office
Purchase Price	$455,000	$40,889,000
Land Value	91,000	4,089,000
Building Value	364,000	36,800,000
Loan-to-Value Ratio	78%	78%
Loan Amount	$354,900	$31,893,420
Interest Rate	10.5%	10.5%
Term (Years)	10	10
Rent	$66,541	$4,000,000
Vacancy Rate	5%	5%
Bad Debt Allowance	3	3
Annual Expense	27,548	0[a]
Cap Rate	7.4%	9.0%
Inflation in Rents	3	3

[a] Rent is net of all operating expenses but before vacancy rate and bad debt allowance.

[1] Cap rate = Net operating income/value.

[2] See Kenneth T. Rosen and Lawrence B. Smith, "The Price-Adjustment Process for Rental Housing and the Natural Vacancy Rate," American Economic Review 73, No. 4 (September 1983), pages 779-786.

[3] A 10% inflation rate scenario was also simulated. The results of the analysis in this environment were not materially different.

Results

The passage of the House of Representatives–Senate Conference Committee bill will result in a substantial drop in after-tax IRR, reflecting the increased tax liability from operations. Comparison of the after-tax IRR under the current tax code, the House of Representatives–Senate Bill and the pre-ACRS tax code shows that, as expected, the highest return is achieved under the current tax code (see Figure 3). The new tax bill results in a 55% drop in IRR for apartments and a 40% decline for office properties. The tax bill, therefore, will eliminate ACRS benefits and reduce the after-tax internal rate of return to levels below those available in the past two decades.

Figure 3. After-Tax Internal Rate of Return (Ten-Year Holding Period)

	Apartment	Office
Pre-ACRS (Pre-1981)	10.1%	11.1%
Current Law	14.1	14.7
House of Representatives–Senate Bill	6.3	8.8

The tax reform proposal will substantially reduce the tax benefits from interest and depreciation deductions that result in tax savings under the current law (see Figure 4). For the prototypical apartment building, the present value of the tax savings under the current law is $75,415 over a ten-year holding period. Under the reform bill there will be no current tax savings, although all rental income will be tax sheltered. For the prototypical office building, the present value of the tax savings over a ten-year holding period is $4,164,000 under current law. As in the apartment case, the reform bill will eliminate current tax shelter but will allow all rental income to be untaxed. Thus, real estate will lose its ability to generate excess tax shelter for non-real estate income, but, in most cases, net rental income will be tax sheltered.

Figure 4. Present Value of Tax on Operations[a] (Discount Rate = 10%; Ten-Year Holding Period)

	Apartment	Office
Pre-ACRS	$(41,911)	$(1,928,000)
Current Law	(75,415)	(4,164,000)
House of Representatives-Senate Bill	0	0

[a] Figures in parentheses indicate tax savings.

In contrast, the tax liability on resale will be significantly lower under the reform bill, because of the beneficial effect of carrying forward the unused annual tax shelter losses and eliminating the recapture tax. The higher effective capital gains tax rate will partly offset this (see Figure 5). The passive loss carryforward will be deducted at the time of sale to the extent of net sales proceeds. Thus, under the tax reform bill, recognition of a substantial portion of tax losses will be deferred until the time of sale and will defray tax liability at that time.

Figure 5. Present Value of Tax on Resale (Discount Rate = 10%; Ten-Year Holding Period)

	Apartment	Office
Pre-ACRS	$23,822	$1,965,000
Current Law	31,780	2,015,000
House of Representatives-Senate Bill	13,051	1,442,000

Although tax liability will be lower on resale, overall, the total tax liability under the tax reform bill will be significantly higher than under the current law (see Figure 6). It will also be higher than the tax liability under the pre-ACRS rules; thus, the real estate industry will face higher taxes than it has at any time during recent years.

Figure 6. Present Value of Total Tax Liability[a] (Discount Rate = 10%; Ten-Year Holding Period)

	Apartment	Office
Pre-ACRS	$(18,089)	$37,000
Current Law	(43,635)	(2,148,000)
House of Representatives-Senate Bill	13,051	1,442,000

[a] Figures in parentheses indicate tax savings.

Depreciation in More Detail

The depreciation benefits for each tax code are highlighted in Figures 7 and 8. The straight-line method proposed by the House of Representatives-Senate bill will result in a sharply lower present value of depreciation deductions than under current law. This reflects the extension of depreciable lives to the 27.5- to 31.5-year range and the elimination of accelerated depreciation provisions. Depreciation deductions as proposed will still be 25% higher than those available prior to 1981.

Figure 7. Comparison of Depreciation Deductions

	Apartment			Office		
Year	Pre-ACRS	Current Law	House-Senate	Pre-ACRS	Current Law	House-Senate
1	3.13%	9.21%	3.64%	3.13%	5.26%	3.17%
2	3.03	8.36	3.64	3.03	5.26	3.17
3	2.93	7.59	3.64	2.93	5.26	3.17
4	2.84	6.89	3.64	2.84	5.26	3.17
5	2.75	6.26	3.64	2.75	5.26	3.17
6	2.67	5.68	3.64	2.67	5.26	3.17
7	2.58	5.26	3.64	2.58	5.26	3.17
8	2.50	5.26	3.64	2.50	5.26	3.17
9	2.50	5.26	3.64	2.50	5.26	3.17
10	2.50	5.26	3.64	2.50	5.26	3.17
Cumulative Total	27.4%	65.0%	36.4%	27.4%	52.6%	31.7%

Figure 8. Comparison of Present Value of Depreciation Deduction (Ten-Year Holding Period)

	Apartments	Office
Pre-ACRS	$62,672	$6,336,000
Current Law	153,630	11,901,000
House of Representatives-Senate Bill	81,332	7,178,000

Overall Results

Figure 9 summarizes the overall effects on after-tax IRR and the present value of after-tax cash flow of the tax reform bill on rents and value.

Figure 9. Impact of Tax Reform on Real Estate (Percentage Change from Current Law)

	Apartments	Office
Internal Rate of Return	(55.3)%	(40.0)%
Present Value of After-Tax Cash Flow	(44.8)	(30.4)
Rents	19.3	12.3
or		
Value	(16.2)	(11.0)

Internal Rate of Return (IRR) is the rate at which investment cost is equal to the discounted value of the cash flows from the investment.

$$\text{Investment Cost} = \sum_{t=1}^{n} \frac{\text{Cash Flows}}{(1 + r)^t}$$

where r = IRR

For the tax-oriented apartment investor, the IRR will drop by 55%, and the present value of after-tax cash flow will fall by 45%. To compensate for the reduced value of these tax benefits, rents will have to rise by 19%, or apartment prices will have to fall by 16%. The dynamics of this adjustment process will likely be as follows: Values will initially fall, new construction will drop, vacancy rates will decline, and rents will eventually rise.

For the tax-oriented office building investor, the effects will be somewhat smaller. The IRR will drop by 40%, and the present value of after-tax cash flows will decline by 30%. Rents will have to rise by 12%, or values will have to drop by 11%, to restore the pre-tax reform bill returns. The smaller relative impact of tax reform on office space reflects the fact that under current law 19-year straight-line -- rather than accelerated -- depreciation, is typically applied to commercial real estate properties to avoid paying full recapture tax on resale. As a result, the reduction in depreciation benefits will have a smaller impact on office properties.

While these are the likely impacts of the tax reform proposal using short-term static cash flow model analyses on a typical building, the overall real estate market effects will probably be more complicated. For example, highly leveraged deep-shelter real estate investments will be more adversely affected, while unleveraged real estate will show a positive impact. Figure 10 shows the interactions of leverage and tax effects.

Figure 10. Impact of Tax Reform on Real Estate for Various Levels of Leverage (Percentage Change in After-Tax IRR; Ten-Year Holding Period)

Leverage	Apartment	Office
90%	(79.2)%	(63.4)%
78%	(55.5)	(40.0)
50%	(21.0)	(11.9)
25%	(6.7)	(0.1)
0%	2.5	7.5

In addition to the impact of leverage, we also tested the effect of variations in the basic economics of the transaction. Our base case analysis assumed that rental income was 15% of value for apartments and 10% of value for office buildings. We ran two alternative scenarios with rent at 18% of value and 12% of value for apartment buildings and at 13% and 7% of value for office buildings. Figure 11 shows the impact of tax reform on after-tax IRR. As expected, the tax reform proposal will have a more negative impact on the more aggressively priced, lower-yielding transaction.

Figure 11. Impact of Tax Reform on Real Estate for Different Rental Income/Value Ratios (Percentage Change in After-Tax IRR; Ten-Year Holding Period)

Apartment		Office	
Rental Income/Value	IRR Pct. Chg.	Rental Income/Value	IRR Pct. Chg.
18%	(35.4)%	13%	(11.8)%
15%	(55.5)	10%	(40.0)
12%	(76.8)	7%	(87.3)

Over time, general equilibrium effects will mitigate the initial negative impacts of tax reform on real estate. New construction will decline in response to tax reform. Eventually, this will allow rents to rise to offset the initial loss of tax benefits. In addition, other general equilibrium effects -- such as a decline in interest rates and an increase in nontaxed investor interest in real estate -- will reduce and, ultimately, offset the negative impacts in the marketplace.

Finally, the phase-in rules proposed in the tax reform legislation will mitigate some of the short-term adjustment costs of tax reform. However, tax reform, if passed, must be viewed as a negative for real estate investment performance and for new construction activity levels over the next few years. The degree to which nontax-motivated investors substitute for tax-motivated investors will determine the extent of the negative impact on property valuation levels and returns. Thus, foreign investors, pension funds and yield-oriented individuals will have relatively better real estate investment opportunities.

Summary and Conclusions

The House of Representatives-Senate Conference Committee's tax reform bill will substantially reduce the value of tax shelter from real estate investment and will force the real estate industry to make adjustments, including modest declines in property values and new construction activity and, eventually, increases in rents.

Under the proposed bill, the real estate industry will pay higher taxes than at any time during recent years. We project that the tax liability for prototypical apartment and office investments will be higher than under the current law and the tax code prior to the introduction of the accelerated cost recovery system (ACRS).

Tax-oriented apartment investors in new projects will experience a 45% drop in after-tax cash flow. Buyers will have to pay 16% less for apartments, or rents will have to rise by 19%, to compensate for this loss.

Tax-oriented office building investors in new projects will experience a 30% reduction in after-tax cash flow. Buyers will have to pay 11% less for office buildings, or rents will have to rise by 12%, to restore pre-tax reform bill returns.

Highly leveraged deep-shelter real estate investments will be more adversely affected.

Over time, general equilibrium effects will mitigate the initial negative impact of tax reform on real estate, new construction will drop, vacancy rates will fall, and rents will rise to offset the initial loss of tax benefits. An increase in tax-exempt investors' involvement in real estate will soften the negative effects on value. Tax reform, by reducing the role of tax-oriented investors, will allow pension funds, foreign investors and yield-oriented domestic investors more favorable relative investment opportunities in real estate.

Appendix

Cash Flow Analysis

Apartment Building

1. Pre-ACRS Tax Law
2. Current Law
3. House-Senate Conference Committee Bill

Office Building

1. Pre-ACRS Tax Law
2. Current Law
3. House-Senate Conference Committee Bill

Apartment Building: Pre-ACRS Tax Law

Data and Preliminary Calculations

Rent	$66,541	Purchase Price	$455,000	Interest Only, Balloon Payment Loan Amount	$354,900
Annual Increase	3%	Land Value	91,000	Loan-to-Value	78%
		Building Value	364,000	Term (Years)	10
Vacancy Rate	5%	Land/Building Ratio	80%	Interest Rate	10.5%
Bad Debt Allowance	3	Selling Cost	8	Debt Coverage Ratio	0.90
Annual Expenses	$27,548	Depreciable Life	40	Net Operating Income	$33,670
Annual Increase	3%	Pct. Declining Balance	125%	Debt Service	37,265
		Starting Basis	364,000		
Inflation	3%				
Cap Rate	7.4	Investors Tax Rate	70%		
		Capital Gains Rate	28		

Cash Flow Statement

	Year 1	2	3	4	5	6	7	8	9	10
Operations										
Potential Gross Income	$66,541	$68,537	$70,593	$72,711	$74,892	$77,139	$79,453	$81,837	$84,292	$86,821
Vacancy Allowance	3,327	3,427	3,530	3,636	3,745	3,857	3,973	4,092	4,215	4,341
Bad Debt Allowance	1,996	2,056	2,118	2,181	2,247	2,314	2,384	2,455	2,529	2,605
Effective Gross Income	61,218	63,054	64,946	66,894	68,901	70,968	73,097	75,290	77,549	79,875
Operating Expenses	27,548	28,374	29,226	30,102	31,005	31,936	32,894	33,881	34,897	35,944
Net Operating Income	33,670	34,680	35,720	36,792	37,896	39,032	40,203	41,410	42,652	43,931
Debt Service	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265
Before-Tax Cash Flow	(3,595)	(2,585)	(1,544)	(473)	631	1,768	2,939	4,145	5,387	6,667
Tax Liability										
Net Operating Income	33,670	34,680	35,720	36,792	37,896	39,032	40,203	41,410	42,652	43,931
Deductible Interest	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265
Depreciation Claimed	11,375	11,020	10,675	10,342	10,018	9,705	9,402	9,108	9,100	9,100
Taxable Income	(14,970)	(13,604)	(12,219)	(10,814)	(9,387)	(7,937)	(6,463)	(4,963)	(3,713)	(2,433)
Tax (Saved) or Paid	(10,479)	(9,523)	(8,554)	(7,570)	(6,571)	(5,556)	(4,524)	(3,474)	(2,599)	(1,703)
After-Tax Cash Flow	6,884	6,938	7,009	7,097	7,202	7,324	7,463	7,619	7,986	8,370
Resale Proceeds for Each Year										
Selling Price	$468,646	$482,706	$497,187	$512,103	$527,466	$543,290	$559,588	$576,376	$593,667	$611,477
Selling Expense	37,492	38,616	39,775	40,968	42,197	43,463	44,767	46,110	47,493	48,918
Mortgage Loan Balance	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900
Before-Tax Proceeds From Sale	76,255	89,189	102,512	116,234	130,368	144,927	159,921	175,366	191,274	207,659
Tax Liability: Building										
• Selling Price	374,917	386,165	397,750	409,682	421,973	434,632	447,671	461,101	474,934	489,182
• Selling Expense	29,993	30,893	31,820	32,775	33,758	34,771	35,814	36,888	37,995	39,135
• Depreciated Basis Str. Line	354,900	345,800	336,700	327,600	318,500	309,400	300,300	291,200	282,100	273,000
Building Long-Term Cap. Gain	(9,976)	9,472	29,230	49,308	69,715	90,461	111,557	133,013	154,839	177,047
Building Cap. Gains Tax	(2,793)	2,652	8,184	13,806	19,520	25,329	31,236	37,244	43,355	49,573
Dep. Basis Str. Line	354,900	345,800	336,700	327,600	318,500	309,400	300,300	291,200	282,100	273,000
Dep. Basis Accelerated	352,625	341,605	330,930	320,589	310,570	300,865	291,463	282,355	273,255	264,155
Excess Depreciation Recapture	2,275	4,195	5,770	7,011	7,930	8,535	8,837	8,845	8,845	8,845
Building Recapture Tax	1,593	2,936	4,039	4,908	5,551	5,974	6,186	6,192	6,192	6,192
Building Total Tax on Resale	(1,201)	5,588	12,223	18,714	25,071	31,304	37,422	43,435	49,547	55,765
Tax Liability: Land										
• Selling Price	93,729	96,541	99,437	102,421	105,493	108,658	111,918	115,275	118,733	122,295
• Selling Expense	7,498	7,723	7,955	8,194	8,439	8,693	8,953	9,222	9,499	9,784
• Basis	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000
Land Long-Term Capital Gain	(4,769)	(2,182)	482	3,227	6,054	8,965	11,964	15,053	18,235	21,512
Land Capital Gains Tax	(1,335)	(611)	135	904	1,695	2,510	3,350	4,215	5,106	6,023
Total Tax on Resale	(2,536)	4,977	12,358	19,618	26,766	33,814	40,772	47,650	54,652	61,788
After-Tax Proceeds From Sale	78,791	84,212	90,154	96,617	103,603	111,113	119,149	127,716	136,622	145,871
Pres. Val. of Cash Flow From Ops. & Sale for Year of Resale	77,886	81,589	84,993	88,097	90,907	93,433	95,685	97,677	99,424	100,950
Pres. Val. of Depr. Claimed	10,341	19,448	27,468	34,532	40,752	46,231	51,056	55,305	59,164	62,672
Pres. Val. of Tax on Resale	(2,306)	4,113	9,285	13,399	16,620	19,087	20,922	22,229	23,178	23,822
Pres. Val. of Tax on Operations	(9,526)	(17,396)	(23,823)	(28,993)	(33,073)	(36,210)	(38,531)	(40,152)	(41,254)	(41,911)
Internal Rate of Return	(14.41)%	(1.07)%	3.74%	6.18%	7.61%	8.53%	9.15%	9.58%	9.90%	10.12%

Apartment Building: Current Law

Data and Preliminary Calculations

Rent	$66,541	Purchase Price	$455,000	Interest Only, Balloon	
Annual Increase	3%	Land Value	91,000	Payment Loan Amount	$354,900
		Building Value	364,000	Loan-to-Value	78%
Vacancy Rate	5%	Land/Building Ratio	80%	Term (Years)	10
Bad Debt Allowance	3	Selling Cost	8	Interest Rate	10.5%
				Debt Coverage Ratio	0.90
Annual Expenses	$27,548	Depreciable Life	19	Net Operating Income	$33,670
Annual Increase	3%	Pct. Accelerated	175%	Debt Service	37,265
		Starting Basis	$364,000		
Inflation	3%				
Cap Rate	7.4	Investors Tax Rate	50%		
		Capital Gains Rate	20		

Cash Flow Statement

	Year 1	2	3	4	5	6	7	8	9	10
Operations										
Potential Gross Income	$66,541	$68,537	$70,593	$72,711	$74,892	$77,139	$79,453	$81,837	$84,292	$86,821
Vacancy Allowance	3,327	3,427	3,530	3,636	3,745	3,857	3,973	4,092	4,215	4,341
Bad Debt Allowance	1,996	2,056	2,118	2,181	2,247	2,314	2,384	2,455	2,529	2,605
Effective Gross Income	61,218	63,054	64,946	66,894	68,901	70,968	73,097	75,290	77,549	79,875
Operating Expenses	27,548	28,374	29,226	30,102	31,005	31,936	32,894	33,881	34,897	35,944
Net Operating Income	33,670	34,680	35,720	36,792	37,896	39,032	40,203	41,410	42,652	43,931
Debt Service	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265
Before-Tax Cash Flow	(3,595)	(2,585)	(1,544)	(473)	631	1,768	2,939	4,145	5,387	6,667
Tax Liability										
Net Operating Income	33,670	34,680	35,720	36,792	37,896	39,032	40,203	41,410	42,652	43,931
Deductible Interest	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265
Depreciation Claimed	33,526	30,438	27,635	25,090	22,779	20,681	19,158	19,158	19,158	19,158
Taxable Income	(37,121)	(33,023)	(29,179)	(25,562)	(22,148)	(18,913)	(16,219)	(15,013)	(13,771)	(12,491)
Tax (Saved) or Paid	(18,561)	(16,512)	(14,590)	(12,781)	(11,074)	(9,456)	(8,109)	(7,506)	(6,885)	(6,246)
After-Tax Cash Flow	14,966	13,927	13,045	12,308	11,705	11,224	11,048	11,651	12,273	12,912
Resale Proceeds for Each Year										
Selling Price	$468,646	$482,706	$497,187	$512,103	$527,466	$543,290	$559,588	$576,376	$593,667	$611,477
Selling Expense	37,492	38,616	39,775	40,968	42,197	43,463	44,767	46,110	47,493	48,918
Mortgage Loan Balance	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900
Before-Tax Proceeds From Sale	76,255	89,189	102,512	116,234	130,368	144,927	159,921	175,366	191,274	207,659
Tax Liability: Building										
• Selling Price	374,917	386,165	397,750	409,682	421,973	434,632	447,671	461,101	474,934	489,182
• Selling Expense	29,993	30,893	31,820	32,775	33,758	34,771	35,814	36,888	37,995	39,135
• Depreciated Basis Str. Line	344,842	325,684	306,526	287,368	268,211	249,053	229,895	210,737	191,579	172,421
Building Long-Term Cap. Gain	82	29,587	59,403	89,539	120,004	150,809	181,962	213,476	245,360	277,626
Building Capital Gains Tax	16	5,917	11,881	17,908	24,001	30,162	36,392	42,695	49,072	55,525
Dep. Basis Str. Line	344,842	325,684	306,526	287,368	268,211	249,053	229,895	210,737	191,579	172,421
Dep. Basis Accelerated	330,474	300,035	272,400	247,311	224,532	203,852	184,694	165,536	146,378	127,220
Excess Depreciation Recapture	14,368	25,649	34,126	40,057	43,678	45,201	45,201	45,201	45,201	45,201
Building Recapture Tax	7,184	12,824	17,063	20,029	21,839	22,600	22,600	22,600	22,600	22,600
Building Total Tax on Resale	7,201	18,742	28,944	37,937	45,840	52,762	58,993	65,296	71,672	78,126
Tax Liability: Land										
• Selling Price	93,729	96,541	99,437	102,421	105,493	108,658	111,918	115,275	118,733	122,295
• Selling Expense	7,498	7,723	7,955	8,194	8,439	8,693	8,953	9,222	9,499	9,784
• Basis	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000
Land Long-Term Cap. Gain	(4,769)	(2,182)	482	3,227	6,054	8,965	11,964	15,053	18,235	21,512
Land Capital Gains Tax	(954)	(436)	96	645	1,211	1,793	2,393	3,011	3,647	4,302
Total Tax on Resale	6,247	18,305	29,040	38,582	47,051	54,555	61,386	68,306	75,319	82,428
After-Tax Proceeds From Sale	70,008	70,884	73,472	77,653	83,318	90,371	98,536	107,060	115,954	125,231
Pres. Val. of Cash Flow From Ops. & Sale for Year of Resale	77,249	83,697	90,117	96,361	102,325	107,939	113,161	117,976	122,412	126,497
Pres. Val. of Depr. Claimed	30,478	55,634	76,397	93,533	107,677	119,350	129,182	138,119	146,244	153,630
Pres. Val. of Tax on Resale	5,679	15,128	21,818	26,352	29,215	30,795	31,501	31,865	31,943	31,780
Pres. Val. of Tax on Operations	(16,873)	(30,519)	(41,480)	(50,210)	(57,086)	(62,424)	(66,585)	(70,087)	(73,007)	(75,415)
Internal Rate of Return	(15.11)%	(0.17)%	5.61%	8.72%	10.63%	11.89%	12.76%	13.36%	13.79%	14.10%

Apartment Building: House-Senate Conference Committee Bill

Data and Preliminary Calculations

Rent	$66,541	Purchase Price	$455,000	Interest Only, Balloon	
Annual Increase	3%	Land Value	91,000	Payment Loan Amount	$354,900
		Building Value	364,000	Loan-to-Value	78%
Vacancy Rate	5%	Land/Building Ratio	80%	Term (Years)	10
Bad Debt Allowance	3	Selling Cost	8	Interest Rate	10.5%
				Debt Coverage Ratio	0.90
Annual Expenses	$27,548	Depreciable Life	27.5	Net Operating Income	$33,670
Annual Increase	3%	Pct. Accelerated	0%	Debt Service	37,265
		Starting Basis	$364,000		
Inflation	3%				
Cap Rate	7.4	Investors Tax Rate	28%		
		Capital Gains Rate	28		

Cash Flow Statement

	Year 1	2	3	4	5	6	7	8	9	10
Operations										
Potential Gross Income	$66,541	$68,537	$70,593	$72,711	$74,892	$77,139	$79,453	$81,837	$84,292	$86,821
Vacancy Allowance	3,327	3,427	3,530	3,636	3,745	3,857	3,973	4,092	4,215	4,341
Bad Debt Allowance	1,996	2,056	2,118	2,181	2,247	2,314	2,384	2,455	2,529	2,605
Effective Gross Income	61,218	63,054	64,946	66,894	68,901	70,968	73,097	75,290	77,549	79,875
Operating Expenses	27,548	28,374	29,226	30,102	31,005	31,936	32,894	33,881	34,897	35,944
Net Operating Income	33,670	34,680	35,720	36,792	37,896	39,032	40,203	41,410	42,652	43,931
Debt Service	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265
Before-Tax Cash Flow	(3,595)	(2,585)	(1,544)	(473)	631	1,768	2,939	4,145	5,387	6,667
Tax Liability										
Net Operating Income	33,670	34,680	35,720	36,792	37,896	39,032	40,203	41,410	42,652	43,931
Applicable Depreciation	13,236	13,236	13,236	13,236	13,236	13,236	13,236	13,236	13,236	13,236
Net Investment Income	20,433	21,443	22,484	23,555	24,659	25,796	26,967	28,173	29,415	30,695
Interest Payment	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265	37,265
Excess Interest Deductions	16,831	15,821	14,781	13,709	12,605	11,468	10,297	9,091	7,849	6,569
Excess Interest Carryforward	—	16,831	32,652	47,433	61,142	73,747	85,215	95,513	104,604	112,453
Current Deductible Interest	20,433	21,443	22,484	23,555	24,659	25,796	26,967	28,173	29,415	30,695
Carry Forward Ded. Interest	0	0	0	0	0	0	0	0	0	0
Total Interest Deduction	20,433	21,443	22,484	23,555	24,659	25,796	26,967	28,173	29,415	30,695
Depreciation Claimed	13,236	13,236	13,236	13,236	13,236	13,236	13,236	13,236	13,236	13,236
Taxable Income	0	0	0	0	0	0	0	0	0	0
Tax (Saved) or Paid	0	0	0	0	0	0	0	0	0	0
After-Tax Cash Flow	(3,595)	(2,585)	(1,544)	(473)	631	1,768	2,939	4,145	5,387	6,667
Resale Proceeds for Each Year										
Selling Price	$468,646	$482,706	$497,187	$512,103	$527,466	$543,290	$559,588	$576,376	$593,667	$611,477
Selling Expense	37,492	38,616	39,775	40,968	42,197	43,463	44,767	46,110	47,493	48,918
Mortgage Loan Balance	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900	354,900
Before-Tax Procceds From Sale	76,255	89,189	102,512	116,234	130,368	144,927	159,921	175,366	191,274	207,659
Tax Liability: Building										
• Selling Price	374,917	386,165	397,750	409,682	421,973	434,632	447,671	461,101	474,934	489,182
• Selling Expense	29,993	30,893	31,820	32,775	33,758	34,771	35,814	36,888	37,995	39,135
• Depreciated Basis Str. Line	350,764	337,527	324,291	311,055	297,818	284,582	271,345	258,109	244,873	231,636
• Interest Carryforward	16,831	32,652	47,433	61,142	73,747	85,215	95,513	104,604	112,453	119,023
Building Long-Term Cap. Gain	(22,671)	(14,908)	(5,794)	4,711	16,650	30,064	44,999	61,499	79,613	99,388
Building Cap. Gains Tax	(6,348)	(4,174)	(1,622)	1,319	4,662	8,418	12,600	17,220	22,292	27,829
Dep. Basis Str. Line	350,764	337,527	324,291	311,055	297,818	284,582	271,345	258,109	244,873	231,636
Dep. Basis Accelerated	350,764	337,527	324,291	311,055	297,818	284,582	271,345	258,109	244,873	231,636
Excess Depreciation Recapture	0	0	0	0	0	0	0	0	0	0
Building Recapture Tax	0	0	0	0	0	0	0	0	0	0
Building Total Tax on Resale	(6,348)	(4,174)	(1,622)	1,319	4,662	8,418	12,600	17,220	22,292	27,829
Tax Liability: Land										
• Selling Price	93,729	96,541	99,437	102,421	105,493	108,658	111,918	115,275	118,733	122,295
• Selling Expense	7,498	7,723	7,955	8,194	8,439	8,693	8,953	9,222	9,499	9,784
• Basis	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000
Land Long-Term Cap. Gain	(4,769)	(2,182)	482	3,227	6,054	8,965	11,964	15,053	18,235	21,512
Land Cap. Gains Tax	(1,335)	(611)	135	904	1,695	2,510	3,350	4,215	5,106	6,023
Total Tax on Resale	(7,683)	(4,785)	(1,487)	2,223	6,357	10,928	15,950	21,435	27,397	33,852
After-Tax Proceeds From Sale	83,938	93,975	103,999	114,012	124,012	133,998	143,972	153,931	163,877	173,807
Pres. Val. of Cash Flow From Ops. & Sale for Year of Resale	73,039	72,261	71,572	70,984	70,506	70,141	69,891	69,755	69,729	69,810
Pres. Val. of Depr. Claimed	12,033	22,972	32,917	41,957	50,176	57,648	64,440	70,615	76,229	81,332
Pres. Val. of Tax on Resale	(6,985)	(3,955)	(1,117)	1,518	3,947	6,169	8,185	9,999	11,619	13,051
Pres. Val. of Tax on Operations	0	0	0	0	0	0	0	0	0	0
Internal Rate of Return	(19.74)%	(6.23)%	(1.25)%	1.34%	2.93%	4.02%	4.80%	5.41%	5.89%	6.28%

Office Building: Pre-ACRS Tax Law

Data and Preliminary Calculations (Dollars in Thousands)

Rent	$4,000	Purchase Price	$40,889	Interest Only, Balloon	
Annual Increase	3%	Land Value	4,089	Payment Loan Amount	$31,893
		Building Value	36,800	Loan-to-Value	78%
Vacancy Rate	5%	Land/Building Ratio	90%	Term (Years)	10
Bad Debt Allowance	3	Selling Cost	8	Interest Rate	10.5%
				Debt Coverage Ratio	1.1
Inflation	3%	Depreciable Life	40	Net Operating Income	$3,680
Cap Rate	9	% Declining Balance	125%	Debt Service	3,349
		Starting Basis	36,800		
		Investors Tax Rate	70%		
		Capital Gains Rate	28		

Cash Flow Statement

	Year									
	1	2	3	4	5	6	7	8	9	10
Operations										
Potential Gross Income	$4,000	$4,000	$4,000	$4,120	$4,244	$4,371	$4,502	$4,637	$4,776	$4,919
Vacancy Allowance	200	200	200	206	212	219	225	232	239	246
Bad Debt Allowance	120	120	120	124	127	131	135	139	143	148
Net Operating Income	3,680	3,680	3,680	3,790	3,904	4,021	4,142	4,266	4,394	4,526
Debt Service	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349
Before-Tax Cash Flow	331	331	331	442	555	672	793	917	1,045	1,177
Tax Liability										
Net Operating Income	3,680	3,680	3,680	3,790	3,904	4,021	4,142	4,266	4,394	4,526
Deductible Interest	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349
Depreciation Claimed	1,150	1,114	1,079	1,046	1,013	981	951	921	920	920
Taxable Income	(819)	(783)	(748)	(604)	(458)	(309)	(157)	(3)	125	257
Tax (Saved) or Paid	(573)	(548)	(524)	(423)	(320)	(216)	(110)	(2)	88	180
After-Tax Cash Flow	904	879	855	864	876	889	903	920	958	997
Resale Proceeds if Sold (Year-End)										
Selling Price	$40,889	$40,889	$42,116	$43,379	$44,680	$46,021	$47,401	$48,823	$50,288	$51,797
Selling Expense	3,271	3,271	3,369	3,470	3,574	3,682	3,792	3,906	4,023	4,144
Mortgage Loan Balance	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893
Before-Tax Proceeds From Sale	5,725	5,725	6,853	8,016	9,213	10,446	11,716	13,025	14,372	15,760
Tax Liability: Building										
• Selling Price	36,800	36,800	37,904	39,041	40,212	41,419	42,661	43,941	45,259	46,617
• Selling Expense	2,944	2,944	3,032	3,123	3,217	3,313	3,413	3,515	3,621	3,729
• Depreciated Basis Str. Line	35,880	34,960	34,040	33,120	32,200	31,280	30,360	29,440	28,520	27,600
Building Long-Term Cap. Gain	(2,024)	(1,104)	832	2,798	4,795	6,825	8,888	10,986	13,119	15,288
Building Cap. Gains Tax	(567)	(309)	233	783	1,343	1,911	2,489	3,076	3,673	4,281
Dep. Basis Str. Line	35,880	34,960	34,040	33,120	32,200	31,280	30,360	29,440	28,520	27,600
Dep. Basis Accelerated	35,650	34,536	33,457	32,411	31,398	30,417	29,467	28,546	27,626	26,706
Excess Depreciation Recapture	230	424	583	709	802	863	893	894	894	894
Building Recapture Tax	161	297	408	496	561	604	625	626	626	626
Building Total Tax on Resale	(406)	(12)	641	1,280	1,904	2,515	3,114	3,702	4,299	4,907
Tax Liability: Land										
• Selling Price	4,089	4,089	4,212	4,338	4,468	4,602	4,740	4,882	5,029	5,180
• Selling Expense	327	327	337	347	357	368	379	391	402	414
• Basis	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089
Land Long-Term Capital Gain	(327)	(327)	(214)	(98)	22	145	272	403	538	676
Land Capital Gains Tax	(92)	(92)	(60)	(27)	6	41	76	113	151	189
Total Tax on Resale	(497)	(104)	581	1,252	1,910	2,556	3,190	3,815	4,450	5,096
After-Tax Proceeds From Sale	6,222	5,829	6,272	6,764	7,303	7,890	8,526	9,210	9,922	10,664
Pres. Val. of Cash Flow From Ops. & Sale for year of Resale	6,479	6,366	6,903	7,401	7,860	8,281	8,665	9,016	9,333	9,621
Pres. Val. of Depr. Claimed	1,045	1,966	2,777	3,491	4,120	4,674	5,162	5,591	5,981	6,336
Pres. Val. of Tax on Resale	(452)	(86)	437	855	1,186	1,443	1,637	1,780	1,887	1,965
Pres. Val. of Tax on Operations	(521)	(974)	(1,367)	(1,656)	(1,855)	(1,977)	(2,033)	(2,035)	(1,997)	(1,928)
Internal Rate of Return	(20.78)%	(8.48)%	(0.35)%	3.89%	6.43%	8.09%	9.23%	10.04%	10.63%	11.07%

Office Building: Current Law

Data and Preliminary Calculations (Dollars in Thousands)

Rent	$4,000	Purchase Price	$40,889	Interest Only, Balloon	
Annual Increase	3%	Land Value	4,089	Payment Loan Amount	$31,893
		Building Value	36,800	Loan-to-Value	78%
Vacancy Rate	5%	Land/Building Ratio	90%	Term (Years)	10
Bad Debt Allowance	3	Selling Cost	8	Interest Rate	10.5%
				Debt Coverage Ratio	1.10
		Depreciable Life	19	Net Operating Income	$3,680
Inflation	3%	Pct. Accelerated	0%	Debt Service	3,349
Cap Rate	9	Starting Basis	$36,800		
		Investors Tax Rate	50%		
		Capital Gains Rate	20		

Cash Flow Statement

	Year 1	2	3	4	5	6	7	8	9	10
Operations										
Potential Gross Income	$4,000	$4,000	$4,000	$4,120	$4,244	$4,371	$4,502	$4,637	$4,776	$4,919
Vacancy Allowance	200	200	200	206	212	219	225	232	239	246
Bad Debt Allowance	120	120	120	124	127	131	135	139	143	148
Net Operating Income	3,680	3,680	3,680	3,790	3,904	4,021	4,142	4,266	4,394	4,526
Debt Service	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349
Before-Tax Cash Flow	331	331	331	442	555	672	793	917	1,045	1,177
Tax Liability										
Net Operating Income	3,680	3,680	3,680	3,790	3,904	4,021	4,142	4,266	4,394	4,526
Deductible Interest	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349
Depreciation Claimed	1,937	1,937	1,937	1,937	1,937	1,937	1,937	1,937	1,937	1,937
Taxable Income	(1,606)	(1,606)	(1,606)	(1,495)	(1,382)	(1,264)	(1,144)	(1,020)	(892)	(760)
Tax (Saved) or Paid	(803)	(803)	(803)	(748)	(691)	(632)	(572)	(510)	(446)	(380)
After-Tax Cash Flow	1,134	1,134	1,134	1,189	1,246	1,305	1,365	1,427	1,491	1,557
Resale Proceeds for Each Year										
Selling Price	$40,899	$40,899	$42,116	$43,379	$44,680	$46,021	$47,401	$48,823	$50,288	$51,797
Selling Expense	3,271	3,271	3,369	3,470	3,574	3,684	3,792	3,906	4,023	4,144
Mortgage Loan Balance	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893
Before-Tax Proceeds From Sale	5,724	5,724	6,853	8,015	9,213	10,446	11,716	13,024	14,372	15,760
Tax Liability: Building										
• Selling Price	36,800	36,800	37,904	39,041	40,212	41,419	42,661	43,941	45,259	46,617
• Selling Expense	2,944	2,944	3,032	3,123	3,217	3,313	3,413	3,515	3,621	3,729
• Depreciated Basis Str. Line	34,863	32,926	30,990	29,053	27,116	25,179	23,242	21,305	19,368	17,432
Building Long-Term Cap. Gain	(1,007)	930	3,882	6,865	9,889	12,926	16,006	19,121	22,270	25,456
Building Cap. Gains Tax	(201)	186	776	1,373	1,976	2,585	3,201	3,824	4,454	5,091
Dep. Basis Str. Line	34,863	32,926	30,990	29,053	27,116	25,179	23,242	21,305	19,368	17,432
Dep. Basis Accelerated	34,863	32,926	30,990	29,053	27,116	25,179	23,242	21,305	19,368	17,432
Excess Depreciation Recapture	0	0	0	0	0	0	0	0	0	0
Building Recapture Tax	0	0	0	0	0	0	0	0	0	0
Building Total Tax on Resale	(201)	186	777	1,373	1,976	2,586	3,201	3,824	4,454	5,090
Tax Liability: Land										
• Selling Price	4,089	4,089	4,212	4,338	4,468	4,602	4,740	4,832	5,029	5,180
• Selling Expense	327	327	337	347	357	368	379	391	402	414
• Basis	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089
Land Long-Term Capital Gain	(327)	(327)	(214)	(98)	22	145	272	403	538	676
Land Capital Gains Tax	(65)	(65)	(43)	(20)	4	29	54	81	108	135
Total Tax on Resale	(267)	120	734	1,353	1,980	2,614	3,256	3,905	4,562	5,227
After-Tax Proceeds From Sale	5,991	5,604	6,119	6,662	7,232	7,831	8,460	9,119	9,810	10,533
Pres. Val. of Cash Flow From Ops. & Sale for Year of Resale	6,478	6,599	7,418	8,183	8,897	9,563	10,184	10,763	11,302	11,802
Pres. Val. of Depr. Claimed	1,761	3,361	4,817	6,140	7,343	8,435	9,429	10,333	11,154	11,901
Pres. Val. of Tax on Resale	(243)	100	551	924	1,230	1,476	1,671	1,822	1,935	2,015
Pres. Val. of Tax on Operations	(730)	(1,393)	(1,997)	(2,507)	(2,936)	(3,293)	(3,586)	(3,824)	(4,013)	(4,160)
Internal Rate of Return	(20.79)%	(6.92)%	2.18%	6.89%	9.69%	11.50%	12.72%	13.59%	14.22%	14.69%

Office Building: House-Senate Conference Committee Bill

Data and Preliminary Calculations (Dollars in Thousands)

Rent	$4,000	Purchase Price	$40,889	Interest Only, Balloon	
Annual Increase	3%	Land Value	4,089	Payment Loan Amount	$31,893
		Building Value	36,800	Loan-to-Value	78%
Vacancy Rate	5%	Land/Building Ratio	90%	Term (Years)	10
Bad Debt Allowance	3	Selling Cost	8	Interest Rate	10.5%
				Debt Coverage Ratio	1.10
		Depreciable Life	31.5	Net Operating Income	$3,680
Inflation	3%	Pct. Accelerated	0%	Debt Service	3,349
Cap Rate	9	Starting Basis	$36,800		
		Investors Tax Rate	28%		
		Capital Gains Rate	28		

Cash Flow Statement

	Year 1	2	3	4	5	6	7	8	9	10
Operations										
Potential Gross Income	$4,000	$4,000	$4,000	$4,120	$4,244	$4,371	$4,502	$4,637	$4,776	$4,919
Vacancy Allowance	200	200	200	206	212	219	225	232	239	246
Bad Debt Allowance	120	120	120	124	127	131	135	139	143	148
Net Operating Income	3,680	3,680	3,680	3,790	3,904	4,021	4,142	4,266	4,394	4,526
Debt Service	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349
Before-Tax Cash Flow	331	331	331	442	555	672	793	917	1,045	1,177
Tax Liability										
Net Operating Income	3,680	3,680	3,680	3,790	3,904	4,021	4,142	4,266	4,394	4,526
Depreciation Claimed	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
Net Investment Income	2,512	2,512	2,512	2,622	2,736	2,853	2,974	3,098	3,226	3,358
Interest Payment	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349	3,349
Excess Interest Deductions	837	837	837	727	613	496	375	251	123	(9)
Excess Interest Carryforward	—	837	1,674	2,511	3,238	3,851	4,346	4,722	4,972	5,095
Current Deductible Interest	2,512	2,512	2,512	2,622	2,736	2,853	2,974	3,098	3,226	3,349
Carry Forward Ded. Interest	0	0	0	0	0	0	0	0	0	9
Total Interest Deduction	2,512	2,512	2,512	2,622	2,736	2,853	2,974	3,098	3,226	3,358
Depreciation Claimed	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
Taxable Income	0	0	0	0	0	0	0	0	0	0
Tax (Saved) or Paid	0	0	0	0	0	0	0	0	0	0
After-Tax Cash Flow	331	331	331	442	555	672	793	917	1,045	1,177
Resale Proceeds for Each Year										
Selling Price	$40,889	$40,889	$42,116	$43,379	$44,680	$46,021	$47,401	$48,823	$50,288	$51,797
Selling Expense	3,271	3,271	3,369	3,470	3,574	3,682	3,792	3,906	4,023	4,144
Mortgage Loan Balance	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893	31,893
Before-Tax Proceeds From Sale	5,725	5,725	6,853	8,016	9,213	10,446	11,716	13,025	14,372	15,760
Tax Liability: Building										
• Selling Price	36,800	36,800	37,904	39,041	40,212	41,419	42,661	43,941	45,259	46,617
• Selling Expense	2,944	2,944	3,032	3,123	3,217	3,313	3,413	3,515	3,621	3,729
• Depreciated Basis Str. Line	35,632	34,464	33,295	32,127	30,959	29,791	28,622	27,454	26,286	25,118
• Interest Carryforward	837	1,674	2,511	3,238	3,851	4,346	4,722	4,972	5,095	5,086
Building Long-Term Cap. Gain	(2,613)	(2,282)	(935)	553	2,186	3,968	5,905	7,999	10,257	12,684
Building Cap. Gains Tax	(732)	(639)	(262)	155	612	1,111	1,653	2,240	2,872	3,551
Dep. Basis Str. Line	35,632	34,464	33,295	32,127	30,959	29,791	28,622	27,454	26,286	25,118
Dep. Basis Accelerated	35,632	34,464	33,295	32,127	30,959	29,791	28,622	27,454	26,286	25,118
Excess Depreciation Recapture	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Building Recapture Tax	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Building Total Tax on Resale	(732)	(639)	(262)	155	612	1,111	1,653	2,240	2,872	3,551
Tax Liability: Land										
• Selling Price	4,089	4,089	4,212	4,338	4,468	4,602	4,740	4,882	5,029	5,180
• Selling Expense	327	327	337	347	357	368	379	391	402	414
• Basis	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089	4,089
Land Long-Term Capital Gain	(327)	(327)	(214)	(98)	22	145	272	403	538	676
Land Capital Gains Tax	(92)	(92)	(60)	(27)	6	41	76	113	151	189
Total Tax on Resale	(823)	(730)	(322)	127	618	1,152	1,729	2,353	3,023	3,741
After-Tax Proceeds From Sale	6,548	6,455	7,175	7,888	8,595	9,294	9,987	10,672	11,349	12,019
Pres. Val. of Cash Flow From Ops. & Sale for Year of Resale	6,254	5,910	6,214	6,513	6,807	7,096	7,382	7,663	7,941	8,216
Pres. Val. of Depr. Claimed	1,062	2,028	2,905	3,703	4,429	5,088	5,688	6,233	6,728	7,178
Pres. Val. of Tax on Resale	(748)	(604)	(242)	87	384	650	887	1,098	1,282	1,442
Pres. Val. of Tax on Operations	0	0	0	0	0	0	0	0	0	0
Internal Rate of Return	(23.53)%	(11.28)%	(3.29)%	0.95%	3.55%	5.30%	6.55%	7.49%	8.22%	8.81%