

Blank Undo		ENTITY										
Year		0	1	2	3	4	5	6	7	8	9	10
<b>Pre-tax</b>												
Value net assets		2000	1950	1932	1945	1986	2054	Combined depreciating asset and appreciating asset				
Net receipts		0	250	213	181	154	131	0	0	0	0	0
Change in value		0	-50	-18	13	41	68	Net asset value increase from Year 3				
Income		0	200	195	193	195	199	Economic income = Net receipts + change in asset value				
Cash flow		-2000	250	213	181	154	2185	0	0	0	0	0
Pre-tax return %	IRR Clr		0.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
<b>Post-tax</b>												
Tax value		2000	1700	1490	1343	1240	1168	0	0	0	0	0
Change in tax value			-300	-210	-147	-103	-72	30% annual depreciation allowances for asset depreciating at 15% pa				
Balancing adjustmt			0	0	0	0	276	Balancing adjustment on disposal of depreciating asset				
CGT bal adj			0	0	0	0	611	Realised gain on sale of of appreciating asset				
Post-tax cash flow		-2000	265	212	171	138	1901	Entity tax rate 30%				
Acc tax paid			-15	-14	-4	11	294	Entity's return higher than 7% because of capital gains and depreciation tax preferences in taxable income				
Post-tax return %	IRR Clr		0.0	0.0	0.0	0.0	7.4					

ENTITY OWNERS														
Retain entity/sell (0/1)			1	1	1	1	0	Interests sold each year					0	0
Retain/distribute			1	1	1	1	1	All cash distributed each year					0	0
Value (share)		2000	1950	1932	1945	1986	0						0	0
Tax value (share)		2000	1950	1932	1945	1986	0						0	0
Franked div int (share)			-35	2	24	35	661							
Unfrank div int(share)			250	192	160	144	-746							
Return of cap (share)		-2000	50	18	0	0	1240							
Tax paid	10% to 5.3% post tax each year as economic income taxed at 47%		109	91	81	76	-190							
CGT base			0	0	0	0	0							
CGT			0	0	0	0	0							
Post-tax cash flow		-2000	2106	2053	2035	2048	2091							
Post-tax return			0.0	0.0	0.0	0.0	0.0							
Return(sales)	Delete		5.30%	5.30%	5.30%	5.30%	5.30%							
Acc overall i/tax paid			94	186	276	368	461							

Annual tax value changes to entity interests equal economic income less actual distributions ('post-tax cash flow') and entity tax paid. In final liquidation year, there is \$199 of economic income and \$283 entity tax paid and the \$1901 distribution comprises \$661 of 'franked' dividends and \$1240 return of capital. Year 4's tax value of \$1986 plus the \$199 economic income less the \$283 of entity tax and the \$661 of 'franked' dividend in the final distribution equals \$1240, the amount of returned capital. Thus, there is no net capital loss for tax purpose on liquidation.

\$461 total tax revenue (ie 47% x \$982 of total economic income)

'Franked' and 'unfranked' dividends in a year reflect the amount of taxable income and amount of economic income not in taxable income, respectively. Individual owners pay tax at 47% each year on franked (grossed up) plus unfranked dividends less franking credits regardless of actual distributions. \$661 of franked dividends (\$945 grossed up) in final year reflect realised capital gains and depreciation adjustments, \$746 of which had been taxed before as unfranked dividends.

**FULL INTEGRATION ON ECONOMIC INCOME (WITH IMPUTATION): DISTRIBUTION AND SALE OF INTERESTS EACH YEAR**