

| Blank Undo          |           | ENTITY |      |      |      |      |      |  |     |     |     |     |  |
|---------------------|-----------|--------|------|------|------|------|------|--|-----|-----|-----|-----|--|
| Year                |           | 0      | 1    | 2    | 3    | 4    | 5    | 6  | 7   | 8   | 9   | 10  |  |
| <b>Pre-tax</b>      |           |        |      |      |      |      |      |  |     |     |     |     |  |
| Value net assets    |           | 2000   | 2215 | 2428 | 2646 | 2874 | 2942 | Combined value of all assets   |     |     |     |     |  |
| Net receipts        |           | 0      | 250  | 239  | 230  | 224  | 219  | 0  | 0   | 0   | 0   | 0   |  |
| Change in value     |           | 0      | -50  | -18  | 13   | 41   | 68   | Net asset value increases from Year 3  |     |     |     |     |  |
| Income              |           | 0      | 200  | 221  | 243  | 265  | 287  | Economic income = Net receipts + change in asset value                                   |     |     |     |     |  |
| Cash flow           |           | -2000  | -15  | 9    | 25   | 36   | 3161 | 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   | 1965 | 1985 | 2044 | 2128 | 2056 | 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 - 1/2 in taxable income                   |     |     |     |     |  |
| Post-tax cash flow  |           | -2000  | 0    | 0    | 0    | 0    | 2943 |  |     |     |     |     |  |
| Acc tax paid        |           |        | -15  | -6   | 19   | 55   | 273  | Entity's return higher than 7% because of capital gains and depreciation tax preferences |     |     |     |     |  |
| Post-tax return %   | IRR   Clr |        | 0.0  | 0.0  | 0.0  | 0.0  | 8.0  |  |     |     |     |     |  |

| ENTITY OWNERS/BENEFICIARIES |   |       |      |      |      |      |       |   |  |  |  |  |
|-----------------------------|---|-------|------|------|------|------|-------|---|--|--|--|--|
| Retain entity/sell (0/1)    |   |       | 0    | 0    | 0    | 0    | 0     | No interests sold   |  |  |  |  |
| Retain/distribute           |   |       | 0    | 0    | 0    | 0    | 1     | All cash retained each year   |  |  |  |  |
| Value (share)               |   | 2000  | 2215 | 2428 | 2646 | 2874 | 0     | Tax value of entity interests - annual tax value changes equal taxable income (net receipts plus change in assets' tax value plus balancing adjustments) less actual distributions (post-tax cash flow) and entity tax paid.  |  |  |  |  |
| Tax value adjusted          |   | 2000  | 1965 | 1985 | 2044 | 2128 | -305  | In final liquidation year, the \$2943 distribution comprises \$510 out of taxed income and \$2000 return of capital (as originally contributed). Year 4's tax value of \$2128 plus the \$729 taxable income less the \$2943 distribution and \$218 of entity tax equals -\$305. Thus, those originally contributing realise a net capital loss for tax purpose of \$305 on liquidation. |  |  |  |  |
| Franked div int (share)     |   |       | -35  | 20   | 58   | 84   | 510   |   |  |  |  |  |
| Unfrank div int (share)     |   |       | 0    | 0    | 0    | 0    | 0     |   |  |  |  |  |
| Return of cap (share)       |   | -2000 | 0    | 0    | 0    | 0    | 2000  |   |  |  |  |  |
| Tax paid                    | Tax on 'grossed-up' franked less credits plus 1/2 CGT base. |       | -8   | 5    | 14   | 21   | 124   |   |  |  |  |  |
| CGT base                    |   |       | 0    | 0    | 0    | 0    | 305   |   |  |  |  |  |
| CGT                         |   |       | 0    | 0    | 0    | 0    | 72    |   |  |  |  |  |
| Post-tax cash flow          |   | -2000 | 8    | -5   | -14  | -21  | 2747  |   |  |  |  |  |
| Post-tax return             |   |       | 0.0  | 0.0  | 0.0  | 0.0  | 0.0   |   |  |  |  |  |
| Return(sales)               | Delete  |       |      |      |      |      | 6.30% | \$500 total tax revenue - ie \$572 (47% x \$1216 of total economic income from the entity's assets) less \$72 (1/4 x \$611 gain x 47%)  |  |  |  |  |
| Acc overall i/tax paid      |   |       | -23  | -10  | 29   | 86   | 500   |   |  |  |  |  |

The total \$390 of tax revenue associated with this 6.3% return reflects the fact that half of the tax savings from 1/2 CGT applying to the \$611 capital gain on land is 'clawed back' in Year 5 by the tax value adjustments to entity interests. Only half is clawed back (\$72) because half the gain is not included in taxable income in Year 5 and then 1/2 CGT applies to the resultant \$305 gain to interest holders. (Were all the gain in taxable income, \$572 tax would result with a 5.7% return.)

**FULL INTEGRATION OF TAXABLE INCOME (WITH IMPUTATION): NO DISTRIBUTIONS AND NO SALES OF INTERESTS (1/2 CGT)**