

| Blank Undo | | ENTITY | | | | | | | | | | | |
|------------------------------------|---------|--------|--------|--------|--------|-------|--------|---|-----|-----|-----|-----|---|
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Pre-tax | | | | | | | | | | | | | |
| Value net assets | | 2000 | 2215 | 2428 | 2646 | 2874 | 2942 | Combined depreciating asset and appreciating asset | | | | | |
| 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 | |
| Post-tax | | | | | | | | | | | | | |
| 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 | CGT on sale of of appreciating asset (100% of increase in value) | | | | | |
| Post-tax cash flow | | -2000 | 0 | 0 | 0 | 0 | 3035 | Entity tax rate 30% | | | | | |
| Acc tax paid | | | -15 | -6 | 19 | 55 | 182 | 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 | 8.7 | | | | | | |
| ENTITY OWNERS/BENEFICIARIES | | | | | | | | | | | | | |
| Retain entity/sell (0/1) | | | 1 | 1 | 1 | 1 | 0 | Interests sold each year | | | | 0 | 0 |
| Retain/distribute | | | 0 | 0 | 0 | 0 | 1 | All cash retained each year | | | | 0 | 0 |
| Value (share) | | 2000 | 2200 | 2421 | 2664 | 2929 | 0 | Value of assets (including retained cash + franking credits) | | | | | |
| Tax value (share) | | 2000 | 2200 | 2421 | 2664 | 2929 | 929 | 0 | 0 | 0 | 0 | 0 | |
| Franked div (share) | | | 0 | 0 | 0 | 0 | 424 | Realised gain on sale of appreciating asset | | | | | |
| Unfranked div (share) | | | 0 | 0 | 0 | 0 | 611 | No CGT taxing capital gains realised in Years 1 to 4 and no tax savings from capital loss of \$929 realised in liquidation year by those buying the entity in Year 4 (\$2929 purchase less \$2000 return of capital in Year 5). | | | | | |
| Return of cap (share) | | -2000 | 0 | 0 | 0 | 0 | 2000 | | | | | | |
| Tax paid | | | 0 | 0 | 0 | 0 | 390 | | | | | | |
| CGT base | | | 200 | 221 | 243 | 265 | -929 | \$572 total tax revenue, ie 47% x \$1216 of total economic income from the entity's assets (\$234 from retained cash saved in bank a/c). Same total revenue as with CGT applying. | | | | | |
| CGT | | | 0 | 0 | 0 | 0 | 0 | | | | | | |
| Post-tax cash flow | | -2000 | 2200 | 2421 | 2664 | 2929 | 2645 | | | | | | |
| Post-tax return | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Return(sales) | Delete | | 10.00% | 10.07% | 10.03% | 9.93% | -9.70% | | | | | | |
| Acc overall i/tax paid | | | -15 | -6 | 19 | 55 | 572 | | | | | | |

Large variations across the years in the after-tax return from the ideal 5.3% (ie 10% pre-tax reduced by individuals' 47% tax rate) - reflecting the tax savings from no CGT on gains in the early years, offset by increased tax from no loss allowed in liquidation year. Capitalisation of these effects into the price of the entity's interests would be expected but such price effects point to poor tax design.

FULL IMPUTATION: NO DISTRIBUTIONS AND ANNUAL SALES OF INTERESTS WITH NO CGT