

Fin 4723: Simplified Examples for Taxes on Real Estate

	CASE 1			CASE 2			CASE 3		w/ PIGS
NOI	100.00	400.00		100.00	400.00		50.00	200.00	200.00
- Mortgage PMT	0.00	180.00		0.00	180.00		0.00	180.00	180.00
= BTCF	100.00	220.00		100.00	220.00		50.00	20.00	20.00
- Tax Amount	0.00	-126.00		26.25	42.00		8.75	0.00	PALL -28.00
= ATCF	100.00	346.00		73.75	178.00		41.25	20.00	48.00
NOI	100.00	400.00		100.00	400.00		50.00	200.00	200.00
- Interest	0.00	180.00		0.00	180.00		0.00	180.00	180.00
- Depreciation	100.00	400.00		25.00	100.00		25.00	100.00	100.00
= Taxable Income	0.00	-180.00		75.00	120.00		25.00	0.00	PALL -80.00
Tax Rate	70%	70%		35%	35%		35%	35%	0.35
Tax Amount	0.00	-126.00		26.25	42.00		8.75	0.00	-28.00
Sales Price	1000.00	4000.00		1000.00	4000.00		1800.00	7200.00	7200.00
- Mortgage Payoff	0.00	3000.00		0.00	3000.00		0.00	3000.00	3000.00
= BTCF from Sale	1000.00	1000.00		1000.00	1000.00		1800.00	4200.00	4200.00
- Tax on Sale	250.00	1000.00		87.50	350.00		207.50	550.00	830.00
= ATCF on Sale	750.00	0.00		912.50	650.00		1592.50	3650.00	3370.00
Sales Price	1000.00	4000.00		1000.00	4000.00		1800.00	7200.00	7200.00
- Adjusted Basis	0.00	0.00		750.00	3000.00		750.00	3800.00	AdjPALL 3000.00
= Gain on Sale	1000.00	4000.00		250.00	1000.00		1050.00	3400.00	4200.00
Depreciation Recapture	-----	-----		250.00	1000.00		250.00	200.00	AdjPALL 1000.00
Dep Recap Tax	-----	-----		87.50	350.00		87.50	70.00	350.00
Capital Gain	1000.00	4000.00		0.00	0.00		800.00	3200.00	3200.00
Capital Gain Tax	250.00	1000.00		0.00	0.00		120.00	480.00	480.00
Tax on Sale	250.00	1000.00		87.50	350.00		207.50	550.00	830.00

FIN 4723: Summary of Effects of Tax and Leverage for Real Estate Investing. Case 1

Tax Rate 70%, Cap Gains 25%, PALL allowed, 10 yr str Line Depn (Bldg and Land)

Ordinary Tax Rate

70%

Mortgage 6% Bullet, 75% LTV

Cap Gains Tax Rate

25%

Building NOI = 100, Buy for and Sell for 1000

Depreciation Recapture treated as a capital gain.

	Bond		Unlevered Bldg		4 Levered Bldgs	
	PreTax	Post Tax	PreTax	Post Tax	PreTax	Post Tax
0	-1000	-1000	-1000	-1000	-1000	-1000
1	100	30	100	100	220	346
2	100	30	100	100	220	346
3	100	30	100	100	220	346
4	100	30	100	100	220	346
5	100	30	100	100	220	346
6	100	30	100	100	220	346
7	100	30	100	100	220	346
8	100	30	100	100	220	346
9	100	30	100	100	220	346
10	1100	1030	1100	850	1220	346
IRR	10.0%	3.0%	10.0%	8.3%	22.0%	32.5%
Sum of AT Cash Flows		300		750		2460
Eff Tax Rate	70%		17%		-48%	

FIN 4723: Summary of Effects of Tax and Leverage for Real Estate Investing. Case 2

Tax Rate 35%, Recapture rate 35%, Cap Gains 15%, No PALL allowed, 40 yr str Line Depn (Bldg and Land)

Ordinary Tax Rate 35% Mortgage 6% Bullet, 75% LTV
 Cap Gains Tax Rate 15% Building NOI = 100, Buy for and Sell for 1000
 Depreciation Recapture Rate 35%

	Bond		Unlevered Bldg		4 Levered Bldgs	
	PreTax	Post Tax	PreTax	Post Tax	PreTax	Post Tax
0	-1000	-1000	-1000	-1000	-1000	-1000
1	100	65	100	73.75	220	178
2	100	65	100	73.75	220	178
3	100	65	100	73.75	220	178
4	100	65	100	73.75	220	178
5	100	65	100	73.75	220	178
6	100	65	100	73.75	220	178
7	100	65	100	73.75	220	178
8	100	65	100	73.75	220	178
9	100	65	100	73.75	220	178
10	1100	1065	1100	986.25	1220	828
IRR	10.0%	6.5%	10.0%	6.7%	22.0%	16.2%
Sum of AT Cash Flows		650		650		1430
Eff Tax Rate	35%		33%		26%	

FIN 4723: Summary of Effects of Tax and Leverage for Real Estate Investing. Case 3

In this example, a low NOI is accepted, with a high capital Gain (eg. Building already has a low rate fixed lease on it).

Tax Rate 35%, Recapture rate 35%, Cap Gains 15%, No PALL allowed, 40 yr str Line Depn (Bldg and Land)

Ordinary Tax Rate 35%

Mortgage 6% Bullet, 75% LTV

Cap Gains Tax Rate 15%

Building NOI = 50, Buy for 1000 and Sell for 1800

Depreciation Recapture Rate 35%

Suspend Losses

With PIGS

	Bond		Unlevered Bldg		4 Levered Bldgs		4 Levered Bldgs	
	PreTax	Post Tax	PreTax	Post Tax	PreTax	Post Tax	PreTax	Post Tax
0	-1000	-1000	-1000	-1000	-1000	-1000	-1000	-1000
1	100	65	50	41.25	20	20	20	48
2	100	65	50	41.25	20	20	20	48
3	100	65	50	41.25	20	20	20	48
4	100	65	50	41.25	20	20	20	48
5	100	65	50	41.25	20	20	20	48
6	100	65	50	41.25	20	20	20	48
7	100	65	50	41.25	20	20	20	48
8	100	65	50	41.25	20	20	20	48
9	100	65	50	41.25	20	20	20	48
10	1100	1065	1850	1633.75	4220	3670	4220	3418
IRR	10.0%	6.5%	10.0%	8.2%	16.6%	15.0%	16.6%	15.9%
Sum of AT Cash Flows		650		1005		2850		2850
Eff Tax Rate	35%		18%		9%		4%	